

CYPRUS THE ROAD AHEAD

With a new government and financial assistance secured, Cyprus is determined to turn the crisis into an opportunity

INTERVIEWS:

Nicos Anastasiades President of the Republic of Cyprus

Harris Georgiades

Minister of
Finance

Yiorgos Lakkotrypis

Minister of Energy, Commerce,
Industry and Tourism

Phidias Pilides

President, Cyprus Chamber
of Commerce and Industry

Christodoulos Angastiniotis

Chairman, Cyprus Investment
Promotion Agency

Contents



4

Cyprus: The Road Ahead

Despite predictions of its demise as an international business centre by its competitors and detractors, Cyprus continues to stand tall and is determined not to waste this crisis, but to turn it into an opportunity to become a more competitive jurisdiction.

IO

Interview: Nicos Anastasiades

President of the Republic of Cyprus

After inheriting a dire domestic financial situation the way forward is not easy, but the new President of the Republic of Cyprus has established himself as a strong reformer with a vision of a new state model promoting stability, efficiency and economic growth.

I4

Interview: Yiorgos Lakkotrypis

Minister of Energy, Commerce, Industry and Tourism

New Minister of Energy, Commerce, Industry and Tourism Yiorgos Lakkotrypis talks business, bailout and boom industry.

I7

Opinion: Is Cyprus attractive for foreign investors?

I8

Interview: Harris Georgiades

Minister of Finance

Minister of Finance Harris Georgiades is determined to bring back stability to the banking sector and safeguard the trust of the international business community.

2I

Opinion: How robust is Cyprus' regulatory framework?



NORTH AMERICA

Suite 21, 2123 Walker's Line, Burlington, Ontario - Canada L7M 4Z9
Tel: +1 905 645 1130 • Fax: +1 905 336 3488

EUROPE

6C Rodou Street, St. Omologites, 1086 Nicosia, Cyprus
Tel: +357 22 516 148 • Fax: +357 22 441 715

info@countryprofiler.com www.countryprofiler.com www.cyprusprofile.com

CountryProfiler Ltd is a specialist publisher of country information that assists corporations managing operations across national borders with trade, investment and relocation decisions. CountryProfiler is recognised by senior business executives, government representatives, institutions and global organisations as a leading provider of informative and insightful country intelligence.

EDITOR

Heidi Marttinen / marttinen@countryprofiler.com

REGIONAL DIRECTORS

Kristina Ernst / ernst@countryprofiler.com
Garvan Keating / keating@countryprofiler.com

ADMINISTRATIVE DIRECTOR

Rick Martin / martin@countryprofiler.com

RESEARCH

Victoria Vasiliou / vasiliou@countryprofiler.com

DESIGN

Ramon Micallef / ram@box-design.net

**Cyprus: The Road Ahead was published in association
with the Cyprus Chamber of Commerce and Industry.**



The information included in this publication is for information purposes only and is subject to change. With regard to the licensing of a business, income generation or any other legal or accounting matters, the Publisher strongly recommends that the reader seeks the advice of an appropriately licensed professional.

All rights reserved. Reproduction in whole or part is strictly prohibited without written permission. Opinions expressed in this publication are not necessarily those of the editor or publisher. All reasonable care is taken to ensure truth and accuracy, but the editor and publishers cannot be held responsible for errors or omissions in articles, advertising, photographs or illustrations.



22 New Incentives Give Green Light for Investment

With a new oil and gas industry developing and new incentives implemented by the government to spur growth and attract investment, the country is headed toward a stronger future.

24 Sectors of Opportunity

Key sectors continue to offer solid investment opportunities

27 Large Scale Projects

Cyprus is fast-tracking developments to kick start the economy

28 Interview: Phidias Pilides

President – Cyprus Chamber of Commerce and Industry

Phidias Pilides is confident Cyprus will recover thanks to its newfound hydrocarbons wealth and strong professional services sector.

31 Opinion: Expectations for Cyprus' professional services sector

32 Interview: Christodoulos Angastiniotis

Chairman – Cyprus Investment Promotion Agency (CIPA)

Significant reforms and new measures to fast-track investment are set to boost the economy and attract new business to Cyprus says Christodoulos Angastiniotis.

35 The Sun Still Shines in Cyprus

Although the traditional 'sun and sea' destination is implementing heavy austerity measures today, to a visitors' eye there is not much evidence of an economic crisis.

CYPRUS

THE



ROAD

AHEAD

Despite predictions of its demise as an international business centre by its competitors and detractors, Cyprus continues to stand tall and is determined not to waste this crisis, but to turn it into an opportunity to become a more competitive jurisdiction.



Fresh from securing the first tranche of its €10 billion in financial assistance, Cyprus is now focused on restructuring and revitalising its economy, making sure every cent counts in safeguarding the future. With Cyprus' corporate structures still a compelling proposition for global companies, new investment opportunities in tourism and with the world-class discovery of hydrocarbons, there is every reason to believe that Cyprus will emerge from this crisis stronger than ever.

Cyprus was the fifth EU member state to request a financial assistance package. The small Eastern Mediterranean country captured the world's attention earlier this year as it fought hard to bounce back from the brink of bankruptcy through intense negotiations with international lenders, while at the same time undergoing presidential elections and a change of government.

Recent economic developments have certainly put Cyprus on the world map, causing fear in fellow EU member states as international lenders set a controversial eurozone precedent by imposing losses on large depositors. But what may have been lost in the coverage of these events is that the island's core offering remains as relevant today as it has for the past decades. The country's status as a financial centre has certainly been severely wounded, but what remains intact is Cyprus' solid experience in corporate structuring and offering blue chip companies and tax planners preferential access to high-growth markets like Europe, Russia, China and India. With close to 50 double tax treaties, Cyprus continues to provide international businesses an attractive base for their operations, a fully EU-harmonised tax and legal framework and one of the lowest and most competitive corporate tax rates in Europe at 12.5%.

THE PERFECT STORM

The current situation in Cyprus has been described by many as the perfect storm. Having enjoyed decades of uninterrupted growth before the current global financial crisis, Cyprus first began to feel the effects in 2010 when the booming construction and real estate sector suffered a severe hit with falling property prices and a decrease in overseas buyers.

The economic climate deteriorated further with rising unemployment, a bloated public sector and public overspending pushing the government deficit further into the red. But even at that stage the situation was manageable. While Cypriot banks were already grappling with a rising number of non-performing loans, the collapse of the Greek economy and the island's significant exposure to Greek government bonds became the proverbial straw that broke the camel's back.

Both domestic and international critics have questioned why Cyprus invested so heavily into Greece. Cyprus has strong trade and investment relations, as well as a cultural and religious affinity with Greece, providing a natural market in which to expand during the boom years. Government bonds are not usually considered to be a risky investment and there was some pressure on Cypriot banks, especially those operating in Greece, to buy the bonds. However the risks involved were unfortunately grossly underestimated as was the outcome of the Greek bailout, which imposed staggering losses of around €4.5 billion on Cypriot banks following the EU/IMF debt haircut on Greece.

CYPRUS AT A GLANCE



Capital:
Nicosia (Lefkosia)



Population:
838,897 (Republic of Cyprus)



Currency:
Euro



GDP per capita:
€20,605 (2012)



Languages: Greek (official), Turkish (official), English (business)



Time: 2 hours ahead of GMT



Despite the short-term pains of a rapid reduction in the size of the banking sector, the economic programme agreement ensures public debt will be sustainable. It creates an even more robust banking sector, giving international investors the opportunity to reaffirm their presence in a financially healthier Cyprus in the years to come. Once the recapitalization of the banking sector is completed and the necessary structural changes are implemented, the financial sector will be on the path to recovery and growth. Over the years, Cypriot banks have demonstrated resilience in the face of adversity, and are therefore well positioned to successfully meet the present challenges. The recent discovery of vast natural gas resources is a positive development and an encouraging sign for a swift return to growth and prosperity, both for the financial sector and the Cypriot economy.



Michael Kammass
Director General
Association of Cyprus Banks

THE BANKS

The unprecedented decision by the Eurogroup to impose losses on depositors sent shock waves around the world and resulted in the closure of Cyprus' entire banking sector for nearly two weeks with the imposition of capital controls in a bid to prevent a bank run.

However, what emerged as the world watched with baited breath, was not a run on the banks or violent riots, but a defiant show of resilience and solidarity among the Cypriots – who say 'we have overcome worse times than this'. Granted, there has been justified anger over these developments and the losses imposed on uninsured depositors. Cypriots and the local banking sector have been severely affected by the winding down of Laiki Bank and the restructuring of the Bank of Cyprus, and those with deposits over €100,000 in these banks have unfortunately had to take this painful setback 'on the chin'.

Despite reports of Cyprus' financial centre being in complete meltdown, in reality, out of the 40 banks operating in Cyprus only two local banks have been forced to undergo restructuring – leaving the majority of banks on the island unaffected. Today, temporary capital controls remain in place to safeguard the banking system and although they have been eased, a definite date is yet to be set to completely lift these measures. Even with

restrictions in place, there has been some evidence of a drop in deposits in the Cypriot banking system. In May 2013 a drop of 2.51% to €55.92 billion compared with €57.37 billion in April was registered by the Central Bank of Cyprus. So far, a total of 16 foreign banks have already been exempted from the controls and companies in Cyprus have reportedly been able to operate despite the inconvenience of capital restrictions. Naturally, both the government and the private sector are keen to see these controls lifted as soon as possible and there have been assurances the restrictions on capital movement will gradually be further relaxed as the situation improves.

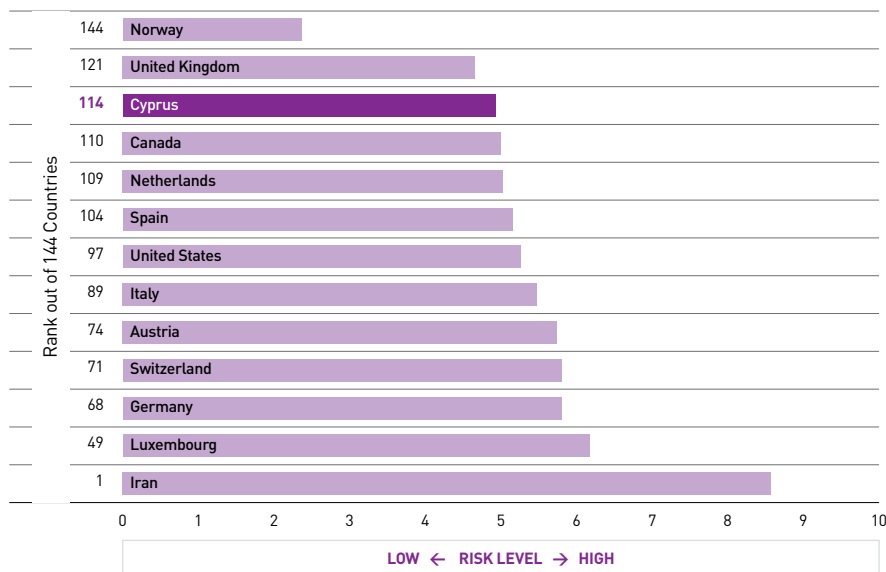
MONEY LAUNDERING

Prior to joining the European Union in 2004, the reputation of Cyprus suffered from rumours of money laundering and tax evasion and was branded a haven for Russian oligarchs. During the negotiation process to join the EU, Cyprus had to undergo extensive measures to implement its current fully EU-approved tax framework. Cyprus is also on the OECD White List and has implemented all EU directives to achieve transparency. In fact, Cyprus is currently the only EU member state applying a stricter threshold to identify beneficial owners of legal entities – in Cyprus 10% ownership must be disclosed rather than the EU benchmark of 25%.

However, these rumours resurfaced once again during the bailout negotiations and many saw them as an unjustified attack and unfair treatment, considering the measures Cyprus has taken to combat money laundering have been internationally assessed several times by the Council of Europe Committee (MONEYVAL). Of course financial crime occurs worldwide, but Cyprus' professionals point out that the country's money laundering regulations rate better than most countries levelling these allegations.

The Cypriot banking sector recently underwent yet another anti-money laundering (AML) audit by MONEYVAL and Deloitte (Italy), who reported Cyprus' banks have a high level of compliance. The findings had no reference to, or indication of, systemic deficiencies, according to the Central Bank of Cyprus. On the contrary, the reports indicated that the standard building blocks are in place, the AML preventive measures and procedures in banks are sound and in general the banks have a high level of compliance with the statutory and regulatory requirements, which in some areas are more demanding than EU and international requirements. Naturally, also some weaknesses were identified in the reports, but the overall analysis was positive – a fact not reflected in the press coverage on the audit.

BASEL ANTI-MONEY LAUNDERING INDEX 2012





SECTORS OF OPPORTUNITY

Since signing the bailout deal, the Cyprus government has been fully focused on implementing strict austerity measures to restructure its ailing economy and has announced new incentives to attract more investment. However, despite these positive moves taken by the government and private sector, the Cypriot economy is expected to contract by an alarming 8% in 2013, shrink by a further 3% in 2014 and return to growth only in 2015 or 2016. Although these figures are causing concern domestically, Cyprus has already seen increasing interest from serious foreign investors, who see the potential of entering the market now – knowing the economy is set to return to growth in a matter of two years. The key challenge now is for Cyprus to control government expenditure and to increase the export of services and goods. The road ahead will be long and rocky, but there is reason for optimism with strong economic sectors such as professional services, tourism and shipping. The light at the end of the tunnel for Cyprus has been the discovery of vast hydrocarbon reserves in its Exclusive Economic Zone (EEZ), which if fully exploited could see the reversal of Cyprus' fortunes.

Energy is the new boom industry in Cyprus and the country has attracted worldwide attention and serious international investment. The country has begun developing strategies to exploit its new-found hydro-

carbon wealth, following a 'world class' natural gas discovery by US-company Noble Energy in 2011. The reserves are currently estimated at around 7 trillion cubic feet (198 billion cubic metres) – enough to meet the domestic gas demand for around 100 years. There is increasing interest to invest in the energy sector and auxiliary services in Cyprus, presenting new opportunities for growth in the well-established legal, financial services and even construction sectors. Cyprus has already signed multi-million-euro agreements with an Italian and South Korean consortium, ENI/Kogas, and with French energy giant Total to start natural gas exploration in its other EEZ blocks – and has plans to start building a new infrastructure to utilise natural gas locally.

foreign clients using Cyprus as a base or gateway for investment have expressed continued confidence in the country as a regional business hub

Exploration to construct a liquefied natural gas (LNG) terminal in Vassilikos – a deal representing the largest investment in the island's history. The ENI/Kogas consortium has also shown interest to invest in a supply train at the Vassilikos liquefaction plant, following a decision by Total to invest around US\$3 billion for a production train at the new LNG plant. The investment and confidence shown by these energy giants support Cyprus' potential in becoming a regional energy hub and its



Cyprus has the capacity to become the leader in developing the Eastern Mediterranean into a major energy hub and establishing itself as an ideal base for LNG exports from the region. Our estimated 7 tcf natural gas discovery could meet Cyprus' gas demand for around 100 years and with gas from all our six leased blocks we could provide up to 30% of Europe's additional gas needs by 2025. Once operations begin there will be a continuous flow of construction work as well as employment and investment opportunities in the hydrocarbons sector, significantly boosting the Cypriot economy. Our immediate priority is to construct the LNG plant and first trains, establish a solid industry and begin LNG exports by 2020. If we successfully achieve this, we can fully exploit our new-found energy wealth.

Charles Ellinas
Executive President
Cyprus National Hydrocarbons
Company (CNHC)



The current problems faced are due to the mishandling of public sector finances over several years coupled with the over exposure of the banking sector to the Greek market, including Greek Government bonds as a result of which we sustained heavy losses from the Greek debt haircut. These problems have nothing to do with the international business sector in Cyprus, which continues to be very healthy and robust. Once we tackle the current problems, Cyprus and its professional services sector will bounce back. I am very confident about the future.

Nicos Nicolaides
Managing Partner
Abacus Ltd

With the introduction of a series of carefully planned measures to overhaul public spending and reinforce the main economic sectors, the outlook for the next five years is well positioned for Cyprus to return to prosperity. The recent discovery of natural gas in the Exclusive Economic Zone of Cyprus creates great prospects for Cyprus shipping and the Cyprus off-shore sectors, a combination of which will definitely play an important role in transforming Cyprus into an important energy centre in the Mediterranean. Strategic partnerships can create new and vibrant shipping and energy projects with huge financial benefits for the Cyprus economy.

Thomas Kazakos
Director General
Cyprus Shipping Chamber



prospects of also contributing to EU energy security.

Cyprus' maritime sector continues to grow and the island is considered one of the most influential global hubs for ship owning and ship management services – boasting some of the world's most influential names in shipping. Cyprus is the largest third party ship management centre in Europe and the largest crew management centre in the world, while the island's international ship register is the third largest in Europe and the tenth largest in the world. This sector contributes over €1 billion to the economy annually, accounting for around 7% of GDP, and directly employs 4,000 shore-based personnel and 55,000 seafarers worldwide. Shipping is one of the success stories in Cyprus and has a fully EU-approved tax tonnage system in place. The overall operational and tax infrastructure for shipping in Cyprus has remained intact, despite the current economic climate.

Tourism is expected to do exceptionally well this year. Cyprus saw a 10% increase in visitors in 2012 and projections for 2013 also expect increased numbers. In addition to the traditional 'sun and sea' package, Cyprus has been diversifying its tourism product with the development of luxury marinas and golf courses and niche segments such as cultural, sports, conference and agro-tourism. Cyprus has also made concentrated efforts to extend the season and promote the island as a year-round destination. The efforts seem to be bearing fruit – an increase of 70,000 tourists are expected to visit Cyprus this winter with five foreign airlines adding the country in their routes for winter 2013. Medical tourism is also on an upward trajectory thanks to the many excellent private hospitals and highly trained medical professionals. Casinos are

another new development, which could open up new investment opportunities and revenue streams of up to €50 million annually, according to the Cyprus Tourism Organisation.

The international business and professional services sector has proved remarkably resilient and has continued to grow throughout the international financial crisis. Following the bailout agreement, business leaders have shown optimism saying the impact on international business is not expected to be as significant as first projected.

According to a number of accounting and legal firms, the majority of their foreign clients using Cyprus as a regional base or a gateway for investment have expressed confidence in the country as a business hub, stating they

will continue their operations on the island. Cyprus is mostly used as a business and tax planning jurisdiction and not as an investment location, where foreign investors 'park' their funds as part of asset management strategies. While the international business centre is the single most important component of the economy, it will face challenges and increased competition in core markets, but Cyprus' strong track record and increased efforts to implement new incentives will help maintain and further develop this vital sector.

€1 bn
Shipping contributes
around €1 billion a
year to the economy

ROLLING OUT THE RED CARPET

In addition to the positive outlook for these sectors, the government is implementing new measures to boost the economy. Tax incentives, fast-tracking of permits for large projects and the relaxation of measures to encourage foreign direct investment into the country are sure to strengthen the Cypriot economy in the long run. In the past, bureaucracy was a key source of frustration for the business community, but the many reforms being implemented today will create a more efficient Cyprus – supporting the efforts to secure a speedy recovery from this economic crisis.

The Cypriot resilience and entrepreneurial spirit has proven formidable throughout its history and despite the current economic climate, Cyprus presents many new and exciting opportunities. In a high value-added service economy, innovation is the key to survival and the silver lining of a crisis is the chance to restructure, rethink strategies and explore new opportunities. The road ahead will be challenging, but with the right decisions, investment and action Cyprus is determined to come out of this crisis stronger than ever. ■

Cyprus will not relinquish its unique advantages as an international business hub and the underlying strength in professional services and the non-financial sectors of the economy such as shipping, technology, education and tourism and on the horizon, the commercialisation of natural gas reserves will support economic recovery. The lifting of capital controls for international banks was a step back to normality. The lifting of capital controls for all banks, the completion of the restructuring of the pillar local bank and the diligent implementation of the MOU will help restore the credibility of the country and regain the trust of the markets. Cyprus continues to offer a secure, legally transparent and attractive base for business operations.

Evgenios Evgeniou
CEO
PwC Cyprus



The Russian Connection

Cyprus and Russia have a long history of being strategic partners and their relations have steadily developed, reaching a high level of cooperation in all fields. Diplomatic relations between the two countries were established in 1960 and Russia was one of the first countries to recognise the newly established Cypriot state following independence from Britain. Prior to the fall of the Soviet Union, Cyprus was one of the few countries Russians could enter freely and one of the only countries with a double tax treaty with the USSR. In addition, sharing the Orthodox faith and strong historical ties between their respective churches, the Eastern Mediterranean island provided a convenient and welcoming environment for business people and holidaymakers alike.

Cyprus has always been an attractive jurisdiction for Russians and businesses from former Soviet states. Many fled domestic instability after the collapse of the Soviet Union and over the years a large Russian and Eastern European community has established itself in Cyprus with its own schools, churches and newspapers. Tourism from Russia has also been increasing in Cyprus every year, and more than 400,000 Russian tourists are expected to visit in 2013.

The double taxation treaty between the two countries is considered to be the most favourable of its kind concluded by Russia to date. The initial tax treaty provided significant benefits for inbound and outbound investment via Cyprus and it remained in force throughout the disintegration of the Soviet Union. Cyprus and Russia have signed several bilateral agreements and the island offers Russian companies and individuals an ideal location to structure their investments in the EU, the Middle East and Russia. As the economies of Russia and the CIS countries grew, Cyprus became a natural portal for investment from the West into Russia and for Russian companies to expand into new markets. Signalling a new era in economic relations, Cyprus and Russia signed a revised double tax agreement in 2010, bringing it in line with OECD guidelines and reinforcing Cyprus as the jurisdiction of choice for corporate structures and investment between Russia and the rest of the world.



A close-up portrait of Nicos Anastasiades, President of the Republic of Cyprus. He is a middle-aged man with dark hair, wearing glasses, a light blue shirt, a patterned tie, and a grey suit jacket. He is looking slightly to the right with a calm expression. The background is a warm, out-of-focus wooden interior.

INTERVIEW

Nicos Anastasiades

President of the Republic of Cyprus

AFTER INHERITING A DIRE DOMESTIC FINANCIAL SITUATION THE WAY FORWARD IS NOT EASY, BUT THE NEW PRESIDENT OF THE REPUBLIC OF CYPRUS HAS ESTABLISHED HIMSELF AS A STRONG REFORMER WITH A VISION OF A NEW STATE MODEL PROMOTING STABILITY, EFFICIENCY AND ECONOMIC GROWTH.

BIO

Nicos Anastasiades is the 7th President of Cyprus and assumed office on 28 February 2013. A lawyer by profession and founder of law firm Nicos Chr. Anastasiades & Partners, he has also had a long career in politics. Anastasiades was first elected to the House of Representatives in 1981 and was the leader of his centre-right political party the Democratic Rally (DISY) from 8 June 1997 to 28 February 2013. He graduated in law from the National and Kapodistrian University of Athens and completed postgraduate studies in shipping law at University College London. Nicos Anastasiades was born 27 September 1946.

YOU WON THE PRESIDENTIAL ELECTIONS AMIDST CHALLENGING TIMES, DO YOU THINK CYPRUS IS READY FOR CHANGE AND THE HARD WORK NECESSARY TO REBUILD ITS ECONOMY?

The dire financial situation I inherited meant that from the very first day in office my government had to immediately resume negotiations with the Troika to conclude a loan agreement. Any additional delay would have led the country to total bankruptcy as the Emergency Liquidity Assistance of the two largest banks was discontinued, the banks were closed and they couldn't reopen without an agreement. The choice was either to lead the country to disorderly bankruptcy, which would have meant the total collapse of the banking sector including the loss of all deposits or to accept an unprecedented yet manageable situation, which would eventually lead to stabilisation and economic recovery – ending a long period of economic instability and catastrophic inaction. We conscientiously chose the latter. It was a historic, but painful decision, not taken light-heartedly. I wholly acknowledge and share the understandable bitterness and apprehension of the people of Cyprus, as well as of the non-resident depositors. I am also fully aware of the difficulties they are facing, as well as the financial losses they have suffered. The way forward is not easy but I am confident that if we are serious and decisive, base our arguments on facts instead of rhetoric, do away with populism and instead follow a road of responsibility, we can achieve a lot.

AFTER TOUGH NEGOTIATIONS, CYPRUS REACHED A FINANCIAL BAILOUT AGREEMENT WITH THE EUROPEAN COMMISSION, THE EUROPEAN CENTRAL BANK AND THE INTERNATIONAL MONETARY FUND. WITH THE AGREEMENT FINALLY IN PLACE, WHAT ARE YOUR IMMEDIATE AND LONG TERM PRIORITIES IN OFFICE?

Our immediate priority is the stabilisation and restructuring of the banking sector and the exit of the Bank of Cyprus from its 'resolution' status. Already, numerous restrictions on transactions and capital movements have been lifted and we hope that soon conditions will permit for all restrictions on financial transactions to be abolished. We also have to implement all the necessary measures and reforms agreed with the Troika and I am pleased that the first tranche of €3 billion of financial assistance has been approved, demonstrating that we are on the right track. A priority of utmost importance is to restructure and revitalise the economy and to modernise domestic policies. I have already presented a first set of measures to mitigate the problems faced by the vulnerable groups of the population, as well as measures and incentives that encourage investments and support growth. I have also announced a set of measures constituting part of my vision as regards to the need for a new state model, based on concepts like meritocracy, virtuous administration, the accountability of state officials and politicians to the electorate, the obligations of the state towards its citizens, as well as tackling bureaucracy and non-

“ I am pleased that the first tranche of €3 billion of financial assistance has been approved, demonstrating that we are on the right track”

transparency. To guarantee that all decisions reached are fully implemented, a monitoring mechanism has been established with the obligation to submit monthly reports to myself and the Council of Ministers. These measures are not exhaustive and more will follow, as well as the necessary structural changes needed to achieve a sustainable growth model.

FOLLOWING THE EUROGROUP DECISION TO APPROVE THE BAILOUT YOU STATED THAT CYPRUS WAS UNFAIRLY TREATED AS A 'GUINEA PIG' FOR TESTING THE ECONOMIC THEORY FOR ENFORCING A HAIRCUT ON BANK DEPOSITS. WHY DO YOU THINK CYPRUS WAS TREATED IN THIS WAY AND HOW WOULD YOU DESCRIBE THE CURRENT EU-CYPRUS RELATIONSHIP?

The most competent people to answer the question of why Cyprus constituted the model for enforcing theories not applied to any other EU partners, should be the Troika and our Eurozone partners. During extensive contacts with my EU counterparts and high-level officials of the EU institutions before the Eurogroup agreement, I conveyed a clear message: Cyprus is not asking for special treatment, but expects just and fair treatment based on the same terms and conditions applied to all other EU partners in need. Regrettably, we found ourselves to be the recipients of demands for the adoption of extreme and unconventional measures, which were not imposed on any other EU member state applying for a bailout or on any country globally. Feasible counter pro-

posals put forth by my government to avoid a haircut on bank deposits during the March 15 Eurogroup meeting were bluntly rejected. As regards to the current relationship between the EU and Cyprus, it must be stressed that it was the founder of my political party, Glafkos Clerides, who set the course, steered the way and finally secured the accession to the EU family – and this is a course from which we will not deviate. We remain faithful to the process of further European integration, as we believe the EU is the unifying framework of our future. Cyprus will remain a committed and efficient partner and will continue to honour and promote our institutional role and assist in the progress of the collective European project. Our aim is to achieve our full, equal and credible participation in all EU pillars and policies. This is aptly signified by the immediate decision to submit an application for accession to the Partnership of Peace.

THROUGHOUT ITS HISTORY CYPRUS HAS PROVEN RESILIENT IN THE FACE OF CHALLENGES. DURING THIS PERIOD OF ECONOMIC DIFFICULTY, WHAT OPPORTUNITIES ARE THERE FOR GROWTH AND INVESTMENT IN CYPRUS?

Despite its current economic difficulties, Cyprus remains an attractive investment destination thanks to its almost 50 double tax treaties, highly qualified and professional workforce, its fully EU-harmonised tax and legal system and one of the most competitive corporate tax rates in Europe at 12.5%. Cyprus is a highly-competitive centre for international businesses, offering a platform for their operations and a preferential access to markets like Europe, Russia, China, India and Asia.

The discovery of natural gas reserves within Cyprus' Exclusive Economic Zone creates tremendous prospects for investments and cooperation in the energy sector and auxiliary services, presenting new opportunities for growth in the well-established legal, financial services and even construction sectors. The stability of Cyprus and its location opposite the Suez Canal are important factors favouring the creation of a regional energy hub on the island for natural gas transportation from Eastern Mediterranean countries to the EU and Far East markets at a comparatively low cost.

The country's maritime sector continues to be an important contributor to growth, as Cyprus is considered one of the most important international hubs for ship owning and management services, and Cyprus' international ship register ranks third in the EU and is the tenth largest in the world. Tourism is also expected to continue to be a growth factor and we are taking measures to diver-



“ we remain faithful to the process of further European integration, as we believe the EU is the unifying framework of our future”

sify our tourist product and develop niche markets such as agro, medical and sport tourism. The decision to establish casino resorts is also expected to create new investment opportunities.

Additionally, the measures I have already announced include favourable tax incentives for existing or new companies doing business in Cyprus, fast-tracking of permits for large projects and tackling bureaucracy, these are expected to positively supplement efforts to increase Cyprus' competitiveness and create a more effective and business-friendly environment. Opportunities also exist in the promising field of Renewable Energy Sources, a sector in which Cyprus has made remarkable progress. Promising areas of growth can also be found in agriculture, green growth, real estate, telecommunications, health, innovation and technology and commerce.

WHAT ARE YOUR VIEWS ON THE CURRENT DEBATE TO PRIVATISE STATE ASSETS TO BOOST THE ECONOMY?

As already agreed in the Eurogroup agreement and the relevant Memorandum of Understanding, the government will initiate a plan that will include the involvement of private strategic investors in State Owned Enterprises (SOEs), semi-governmental organisations and real estate/land assets in order to restore debt sustainability by raising €1.4 billion. Our vision is to use this opportunity to improve economic efficiency through enhanced competition and to attract big investors. At the same time, one of our main

priorities will be to protect the jobs of the employees working in organisations subject to divestment, restructuring or liquidation.

DO YOU THINK THERE CONTINUES TO BE MISCONCEPTIONS ABOUT CYPRUS? THE COUNTRY'S TAXATION CAME UNDER SCRUTINY IN THE PRESS DURING THE BAILOUT NEGOTIATIONS, WITH ALLEGATIONS OF MONEY LAUNDERING AND TAX EVASION. WHY DO YOU THINK THESE ALLEGATIONS EMERGED AND HOW WOULD YOU RESPOND TO THEM?

Cyprus has fully adopted and implemented all international measures and in some areas we even go beyond international standards to combat financial crime. Cyprus' anti-money laundering measures have been repeatedly evaluated successfully by the Committee of the Council of Europe, Financial Action Task Force and the International Monetary Fund. Undoubtedly mistakes were made in the past, not only in Cyprus, but also in Europe and around the globe. Since then, Cyprus has implemented a comprehensive framework to combat money laundering and terrorist financing. As a regional and international business centre, Cyprus considers the fight against money laundering among its top domestic and foreign policy priorities.

The MONEYVAL evaluation in 2011 rated Cyprus very favourably compared to other countries, Cyprus is also on the OECD White List and has implemented all EU directives related to issues of transparency. We are open to any justified requests for investiga-

tion – we have the necessary laws in place and have solid cooperation with the respective Financial Intelligence Units (FIUs) and law enforcement authorities of numerous other countries. It is important to highlight that this assessment was once more verified by the Eurogroup meeting of May 13, following the results of the independent audit on Cyprus' anti-money laundering framework. However, we are not complacent and are committed to working together with our EU partners in implementing any further improvements that are deemed necessary.

THE CURRENT ECONOMIC SITUATION HAS SOMEWHAT OVERTAKEN THE POLITICAL ISSUE OF THE DIVISION OF CYPRUS. YOU SUPPORTED THE UNITED NATIONS REUNIFICATION PLAN – THE SO-CALLED ANNAN PLAN – WHICH WAS REJECTED IN 2004 BY THE GREEK CYPRIOTS. WHAT IS YOUR CURRENT STANCE ON THE ISSUE AND WHEN ARE THE REUNIFICATION NEGOTIATIONS DUE TO RESTART?

The Cyprus problem was and shall remain the greatest challenge for us. It pertains to our national survival and is a common cause. No one, neither the President of the Republic nor a political leader, can shoulder alone the burden of managing our national problem. Collectiveness is required on the basis of an assertive strategy. At this critical economic juncture for Cyprus, our pressing priority is to address the present economic challenges and to restore the stability of the financial system. This fact in no way implies that we are not committed to the reunification of Cyprus, on the basis of the relevant UN Security Council Resolutions – which provide for a bizonal, bicomunal federation with a single sovereignty, single citizenship and a single international personality – and the EU's values and principles, its institutional legal framework and the *acquis communautaire*. We seek a reunification, which will restore human rights for all the citizens of Cyprus, both Greek and Turkish Cypriots. In the coming months, we will be able to launch a new procedure for resolving the

Cyprus problem, always under the auspices of the UN, but with the substantial involvement of the EU and not neglecting Turkey's fundamental role as the country exercising absolute control over the decision-making of Turkish Cypriots. The adoption of a number of confidence building measures before the start of negotiations could however pave our way forward and kick-start our efforts.

WHAT IS YOUR VISION FOR CYPRUS AND HOW DO YOU SEE THE COUNTRY DEVELOPING IN THE NEXT FIVE YEARS?

We are determined to live up to the expectations of society and serve its interests through the adoption of a daring and well-balanced policy of modernisation, structural reform and growth. No doubt we are facing extremely challenging conditions, but there are no easy or immediate solutions. We have, however, drafted a medium term results-oriented strategy that will bear fruit over time. My vision for Cyprus for the next five years is to promote growth, encourage foreign investments, increase Cyprus' competitiveness and create a more effective business environment. Only through growth can we create jobs and tackle unemployment. We must establish a social safety net for those in real need – the unemployed, pensioners and other vulnerable groups, as well as refugees and the enclaved. We need to achieve systematic consistent co-operation between the executive, legislative and judiciary powers, as well as with the independent institutions of the country and restore the trust of citizens in politicians and state institutions. My vision is also to follow a new foreign policy dogma, aimed at investing in the interest that lies in the viable resolution of our national problem, safeguarding the exploitation of our natural wealth and promoting Cyprus as a business centre with the attraction of foreign investments. This includes enhanced participation in all EU pillars and policies, credible cooperation with EU member states and the upgrading of already good bilateral relations with the US, Russia, China and other countries.

“creating a network of natural gas transportation projects in the Eastern Mediterranean will also serve as a means to potentially strengthen regional energy security”

My foreign policy doctrine undoubtedly involves efforts to contribute to regional peace in our immediate neighbourhood through initiatives with clear aims such as: Building primarily a new relation between Cyprus and Turkey which will lead to the solution of the Cyprus problem and will put an end to the occupation and to the violation of human rights. Turkey's military occupation of Cyprus is a destabilising factor for dynamics and the security of the Eastern Mediterranean. It is our firm belief that a just and viable solution to the Cyprus problem is in the interest of peace and security in the Eastern Mediterranean. A Cyprus solution on its own is far from enough in the transformation of the region and in the finding of durable solutions to long-standing complex problems. Nonetheless, a settlement in Cyprus that safeguards for all its citizens their fundamental human rights and basic freedoms, will undoubtedly have a very important collateral influence on achieving and maintaining a much-needed environment of stability and peace in our turbulent region and will prove of undeniable value for other disputes and conflicts. Cyprus could also prove to be a fundamental pillar in energy cooperation between the countries of the Eastern Mediterranean. My government is determined and committed to the construction of a Liquefied Natural Gas plant. Creating a network of natural gas transportation projects in the Eastern Mediterranean will also serve as a means to potentially strengthen regional energy security and attract foreign investments, leading to job creation; this should serve as a boost to the economies of all the countries in the region. Energy should not be a source of conflict, but a tool for conflict resolution and regional integration. I am fully aware that we have a long way to go before fulfilling the vision of a stable, secure and prosperous Eastern Mediterranean. However, I believe that by achieving the implementation of all of the three concepts described, in conjunction with the fact that Cyprus is not burdened with hidden agendas, the faster we will attain this goal to the benefit of the wider region. ■





BIO

Before assuming office as Minister of Energy, Commerce, Industry and Tourism in March 2013, Yiorgos Lakkotrypis was Managing Director for Microsoft Cyprus and Malta, and subsequently Public Sector Director at Microsoft Central & Eastern Europe. A Fulbright scholar, Lakkotrypis also holds a Mathematics and Computer Science (BSc) degree from the University of Keele and completed his MBA at the University of Colorado. In 1991 he joined Joannou & Paraskevaides overseeing the company's IT systems in Benghazi, Libya, and later worked in sales at IBM Cyprus for six years. Lakkotrypis was a member of the Board of Directors of the Cyprus Investment Promotion Agency (CIPA) from 2008 to 2011, and was appointed a member of the Board of Directors of the Natural Gas Public Company (DEFA) in 2009, a position he held until his appointment as Minister of Energy, Commerce, Industry and Tourism.

INTERVIEW

Yiorgos Lakkotrypis

Minister of Energy, Commerce, Industry and Tourism

RIGHT PRIORITIES WILL ENSURE CYPRUS REMAINS ATTRACTIVE FOR INVESTMENT. NEW MINISTER OF ENERGY, COMMERCE, INDUSTRY AND TOURISM YIORGOS LAKKOTRYPIS TALKS BUSINESS, BAILOUT AND BOOM INDUSTRY.

YOU HAVE BEEN APPOINTED AT A TIME WHEN CYPRUS FACES SERIOUS ECONOMIC CHALLENGES, WHAT ARE YOUR KEY PRIORITIES AS THE NEW MINISTER OF ENERGY, COMMERCE, INDUSTRY AND TOURISM?

In the short-term, we need to focus on measures to boost the economy and control the current recession. Cyprus depends heavily on tourism, so a key priority is to enhance both the quality and the quantity of our product. Although we had a dip in tourism bookings over March and April, we have bounced back and fortunately our numbers have gone back to those before the crisis. Another priority is to enhance the reputation of Cyprus internationally and to restore our credibility. We are working hard to relay the message globally that Cyprus is stable and we are open for business. Our banking sector has been severely hurt, but with the right priorities and actions we can ensure Cyprus remains an attractive investment destination. In the mid-term, it is crucial to advance projects that have been in the pipeline for some time, such as marinas, golf courses, photovoltaic parks and other large development projects. The top priority for the long-term is to develop our oil and gas industry to properly manage this new potential income for Cyprus.

YOUR MINISTRY OVERSEES SECTORS THAT CONTRIBUTE SIGNIFICANTLY TO THE ECONOMY OF CYPRUS, DESPITE THE CURRENT ECONOMIC CLIMATE, WHAT OPPORTUNITIES DO YOU SEE FOR GROWTH AND INVESTMENT IN CYPRUS?

There are still various investment opportunities in tourism. We are focusing on diversifying the product and extending the season to 12 months. Currently we have capital assets such as hotels sitting idle for three to four months and we need to utilise them all year

round. We have investment flowing into the marina projects and golf courses – and new investment opportunities will emerge from the planned resort casinos. We are aiming to advance fast and estimate we will have a limited number of licences. We are now consulting with major casino operators to see what model would be most viable for Cyprus. This new industry is attractive to investors and we are looking at developing one or more casinos as part of thematic parks including conference centres, spas and hotels to attract all kinds of visitors.

The energy sector as a whole has great potential, and the developing oil and gas sector will provide great opportunities for companies to set up regional bases in Cyprus. We are at a critical milestone today, as in addition to our own hydrocarbons exploration, neighbours Israel and Egypt are advancing fast and Lebanon is starting its own exploration activities. Cyprus is strategically positioned as a country to attract logistics, petrochemical and other oil and gas companies to set up on the island – and we are seeing increased interest from big multinationals. Our location establishes the island as a gateway between Europe and the Middle East, as well as Africa and Asia.

The development of the renewable energy sector also provides investment opportunities, as we are planning to bring photovoltaic energy to 15,000 Cypriot households over the next three years. We are seeing an industry evolving around renewable energy, which will also help us to meet our EU targets.

“ new investment opportunities will emerge from the planned resort casinos”

“ the LNG terminal is an ambitious project of strategic importance and will comprise the largest investment in the history of Cyprus”

IN DECEMBER 2011, NOBLE ENERGY ANNOUNCED A WORLD-CLASS NATURAL GAS FIND ESTIMATED BETWEEN 5 AND 8 TRILLION CUBIC FEET (TCF) IN CYPRUS' EXCLUSIVE ECONOMIC ZONE. CYPRUS HAS SINCE AWARDED LICENCES FOR SEVERAL OF ITS 13 OFFSHORE BLOCKS. HOW SIGNIFICANT IS THIS FIND FOR THE COUNTRY?

The significance of the hydrocarbons discovery is huge because of its potential economic and geopolitical impact. Many countries are now undergoing a financial crisis, but we have the opportunity of an economic boost from our hydrocarbon reserves. It will create jobs, inject new capital into the economy and help us to get back on our feet. We are also now integrating oil and gas related degrees into our education system to create a skilled domestic labour force to support this new industry and create more employment. The benefits of this new industry will filter into the entire economy of Cyprus.

AFTER EXPLORATION LICENCES WERE AWARDED FOR SEVERAL OF CYPRUS' OFFSHORE BLOCKS, YOU ANNOUNCED PLANS TO BUILD A LIQUEFIED NATURAL GAS (LNG) TERMINAL FOR INTERNATIONAL EXPORT AND DOMESTIC DISTRIBUTION. WHAT IS THE CURRENT PROGRESS?

A Memorandum of Understanding (MOU) for the terminal has been signed between the Republic of Cyprus and Noble Energy, Delek Drilling and Avner Oil Exploration. This is an ambitious project of strategic importance and will comprise the largest investment in the history of Cyprus. The MOU represents the next milestone in the roadmap for the exploitation of our gas reserves and defines the framework, in which negotiations between the government and the three companies will be conducted in

“the decision to build an LNG terminal and not a pipeline ensures we have the flexibility to export to the best markets worldwide”

regard to construction and operation of the LNG plant.

We are also now advancing on the upstream production and Noble Energy has begun its appraisal drillings, which will determine the quantity and quality of the gas reserves in block 12 by October 2013. Energy giants ENI and Total are also advancing in the exploration of their awarded blocks, so we are going through exciting times. As for domestic distribution, the plans are that it will precede the export facility, something that will make the Cyprus economy more competitive.

NEIGHBOURS ISRAEL AND LEBANON ARE ALSO LOOKING TO DEVELOP THEIR ENERGY SECTORS AND TO EXPORT NATURAL GAS. WHAT KIND OF COOPERATION DO YOU ENVISAGE WITH THESE COUNTRIES AND COULD CYPRUS TAKE A LEADING ROLE IN TRANSFORMING THE EASTERN MEDITERRANEAN INTO AN ENERGY HUB?

Cyprus is geopolitically well-placed to be the forerunner in this project, but we also need to be economically well-positioned to achieve this. We are in discussions to increase our collaboration in terms of energy with all our neighbours who are in the process of exploring hydrocarbon reserves. We need to work together, because we all agree that our efforts in the Eastern Mediterranean basin can be a catalyst for stability in the region – and stability brings investment. If we can achieve stability in the Eastern Mediterranean most major oil and gas companies will be interested in participating in these projects. Our efforts are already boosting additional related investments, establishing Cyprus as an ideal hub for companies to service the region and neighbouring countries thanks to our political stability and the open channel we have with both Israel and Lebanon.

AUSTRALIA AND THE US ARE SET TO BECOME THE LARGEST LIQUEFIED NATURAL GAS (LNG) EXPORTERS IN THE WORLD IN THE NEXT 5 TO 10 YEARS. CYPRUS IS STILL IN THE EARLY STAGES OF DEVELOPING ITS ENERGY SECTOR, ARE YOU CONCERNED THE SURGE IN LNG EXPORTS BY AUSTRALIA AND THE US COULD COMPROMISE CYPRUS' POTENTIAL LNG EXPORT REVENUES?

While the supply of natural gas could potentially increase, we also see that demand is increasing. We are monitoring the worldwide developments of supply and demand, and we take these into consideration as we progress with our plans. We have our strategy and we are pursuing it vigorously. Currently, demand completely exceeds supply and both Asia and Europe remain significant potential markets for us. The decision to build an LNG terminal and not a pipeline ensures we have the flexibility to export to the best markets worldwide.

WITH OVER 340 DAYS OF SUNSHINE A YEAR, CYPRUS IS ONE OF THE HIGHEST USERS PER CAPITA OF SOLAR WATER HEATERS IN EUROPE. HOW IS THE RENEWABLE ENERGY SECTOR BEING DEVELOPED AND WHAT OPPORTUNITIES DO YOU SEE FOR FOREIGN INVESTMENT?

The development of storage options for renewable energy is where we need investment. One of the challenges many European countries face today is how to integrate renewable energy into the grid while sustaining the stability of the system, as renewables are often unpredictable sources of energy. Proper storage systems will help stabilise the flow of electricity to the grid. Wind and solar systems are definitely some of the best options for Cyprus and foreign investment, thanks to our climate and abundance of sunny weather.

CYPRUS HAS PROVEN TO BE RESILIENT IN THE FACE OF ADVERSITY, HOW LONG DO YOU THINK IT WILL TAKE FOR CYPRUS TO RECOVER FROM THIS CRISIS AND HOW DO YOU SEE THE COUNTRY DEVELOPING OVER THE NEXT FIVE YEARS?

Things will get worse before they get better, but if we take the right decisions and initiatives I strongly believe we will be on the road to recovery in the next two years. Unemployment will rise and there is a recession, but we have prospects for a speedy recovery. We have a strong shipping and tourism sector and a new booming energy sector with renewables and oil and gas. Thanks to these industries and the investments they attract, the recovery will be fast as we can create the necessary jobs, investment environment and structures to attract more foreign investment. While it is going to be tough, I am optimistic we will be able to recover faster than many anticipated.

WHAT MESSAGE WOULD YOU LIKE TO GIVE TO THE INTERNATIONAL BUSINESS COMMUNITY?

We have our priorities clearly set out, we welcome all investors to Cyprus and we are determined to turn the country around. We support and promote private initiative and will implement the necessary infrastructure to expedite processes to ensure projects go forward. Cyprus is open for business. ■

“while it is going to be tough, I am optimistic we will be able to recover faster than many anticipated”



As a foreign investor, how does Cyprus fit into your international operations and growth strategy? What are the country's main competitive advantages?

Barclays Bank PLC

Country of Origin:
United Kingdom

Barclays has had a long-standing presence in Cyprus going back over 70 years. Barclays Cyprus is a branch of Barclays Bank PLC and falls under the Wealth and Investment Management division of the bank and offers a full range of corporate banking and investment services to local and international corporate clients. In recent years the country has made significant progress in developing its professional services sector and has achieved solid economic growth as a result. This has been driven by its location, highly skilled workforce, tax legislation, strong legal framework and its membership of the EU.

Evan Gavvas
Country Director
Barclays Bank PLC



Uniteam Marine Limited

Country of Origin:
Germany

Having the right team at the right location is a prerequisite to the successful pursuit of my vision and ideas. Cyprus is the right location, due to its strategic position close to Europe and within easy access to the Far East, the excellent infrastructure, professional services and the human capital element. Cyprus complements my international operations, with its highly educated staff and professional lawyers and accountants. The strong support in Cyprus for the maritime industry has greatly contributed to the successful tackling of various industry issues. The EU-approved unique tonnage tax system also acts as the mainstay for the continuous presence of shipping companies on the island. This combination of advantages sustains our success and has kept us in Cyprus since 1978 – and continues to help us further pursue the growth of our organisation.

Gerhard Ruether
Chairman
Uniteam Marine Limited



Kardex Systems Ltd

Country of Origin:
Switzerland

Kardex export HQ for MEA area has been based in Cyprus since 1980 and is the Kardex Group company responsible for the sales, marketing, technical and software support services to our distributors in the Middle East, Gulf, Africa, Balkans and Central Asia. After over 30 years in Cyprus, we will definitely stay on the island as time has proved that we made the right decision to have Cyprus as our base. We still maintain the same advantages of operating in an efficient business environment with experienced professionals, an attractive tax framework and overseas market proximity to Africa, Europe and Asia.

Demetris Kouloundis
Sales Director MEA
Kardex Systems Ltd



NCR Middle East/ Africa Region

Country of Origin:
United States

NCR's headquarters for the Middle East and Africa (MEA) Region are based in Cyprus. In addition to supporting the MEA region, executives from the NCR office in Cyprus have responsibilities for the growing markets of Asia, Australia and New Zealand. NCR's plan is to continue investing in the emerging economies while growing the customer base across all the countries. Cyprus provides us with the ideal base to achieve these goals. The favourable business climate, the excellent telecommunications infrastructure, the well-educated and skilled human resources, favourable tax rates and the island's proximity to the Middle East and Africa markets were among the key factors that motivated NCR Corporation to establish its regional offices in Cyprus.

George Flouros
Vice President, NCR
Middle East/Africa Region



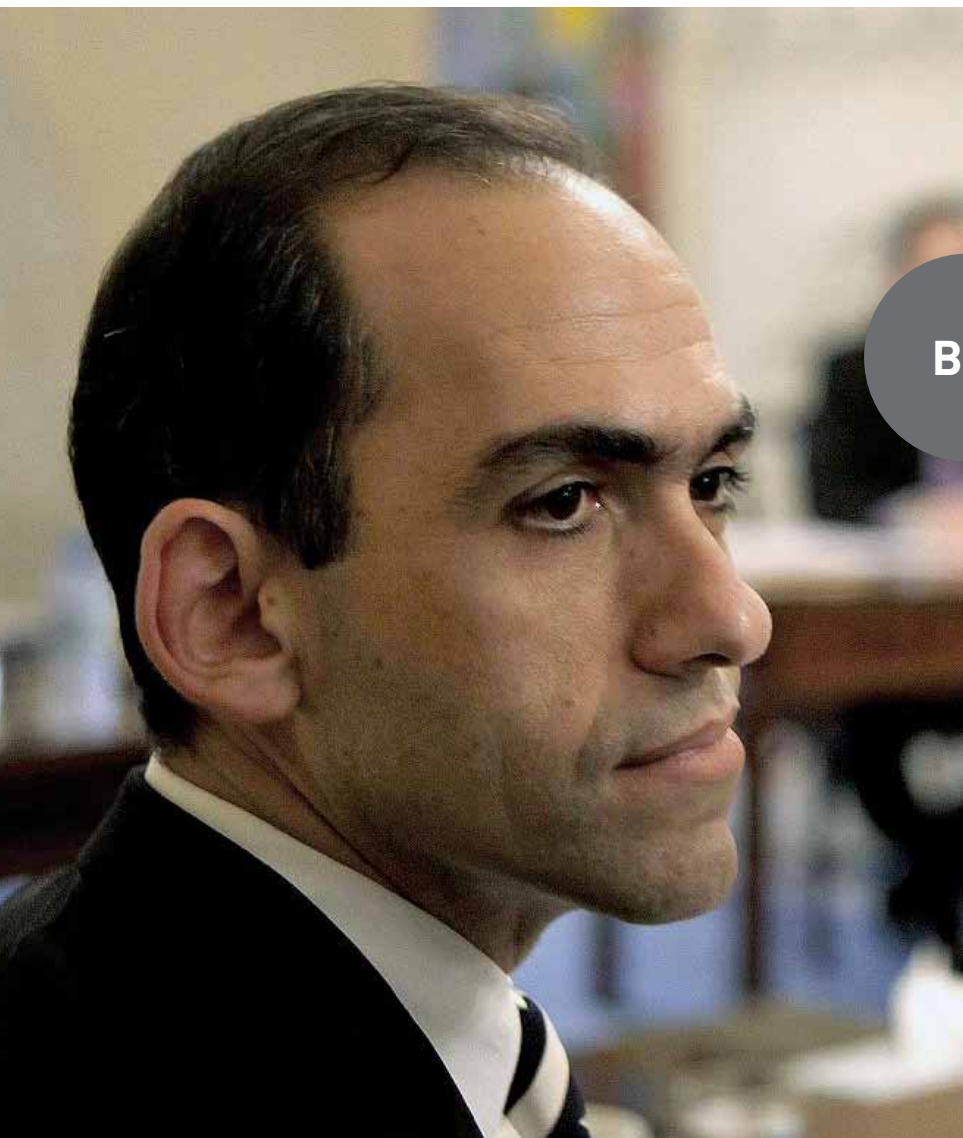
VTTI B.V. VTT Vasiliko Ltd

Country of Origin:
The Netherlands

Our commitment and confidence in Cyprus remains as strong as ever. We expect to invest around €300 million and our oil storage terminal project is proceeding according to plan. In addition, an expansion of the terminal is under consideration, which could increase the overall investment to around €400 million. It will bring significant capital injections and economic benefits to Cyprus, from jobs to the reduction of fuel costs. The Cyprus Ports Authority will benefit around €18 million annually from port duties, while the state will have additional revenues from customs and the taxation of companies marketing products through the terminal. We see Cyprus as a future energy hub of the Eastern Mediterranean, and an attractive place in which to invest. Cyprus continues to be a solid business centre for its favourable geographical location, EU membership and the high quality of human capital, services and infrastructure. The terminal also provides opportunities to develop other services companies in the area, bringing additional economic benefits to Cyprus.

Rob Nijst
CEO of VTTI





BIO

Harris Georgiades was appointed Minister of Finance of Cyprus on 3 April 2013 by President Nicos Anastasiades. He was elected as a Member of the Parliament with the Democratic Rally in May 2011 and served as a Member of the Committee of Financial and Budgetary Affairs, the Watchdog Committee and the Committee of Communications and Public Works. He has served as Chairman of the Democratic Rally Young Graduates and as Director of the Democratic Rally President's Office. During 2009-2013 he served as press spokesman of the Democratic Rally and was also the Deputy Head of the Economic Policy of the Party. He has also been professionally involved in the tourism sector. Georgiades studied Economics and International Relations and European Studies at the University of Reading, UK.

INTERVIEW

Harris Georgiades

Minister of Finance

UNDER THE CURRENT CHALLENGING CONDITIONS, CYPRUS' POLICY RESPONSES MUST BE BOTH EFFECTIVE AND TIMELY SAYS NEW MINISTER OF FINANCE HARRIS GEORGIADES, WHO IS DETERMINED TO BRING STABILITY BACK TO THE BANKING SECTOR AND SAFEGUARD THE TRUST OF THE INTERNATIONAL BUSINESS COMMUNITY IN CYPRUS' ECONOMY.

CYPRUS IS STRIVING TO GET BACK TO BUSINESS AS USUAL AFTER SECURING A FINANCIAL BAILOUT PACKAGE, WHAT ARE THE IMMEDIATE PRIORITIES OF THE MINISTRY OF FINANCE?

After the recent Eurogroup decisions on financial assistance, Cyprus aims to restore confidence in its economy and especially in its banking sector. We aim to achieve this through the strict and full implementation of the Memorandum of Understanding (MOU), which is based on three pillars, fiscal and structural measures and measures to restructure, recapitalise and supervise the banking sector.

We also aim to promote a number of structural reforms that have not been implemented for decades and will be conducive to economic growth, such as pension reform,

the introduction of a three-year budgetary framework and the modernisation of public and tax administration.

In parallel with the full implementation of the MOU, the government aims to implement specific measures to boost economic growth and foster employment. These measures include employment support schemes in particular for vulnerable groups, the acceleration of casino licensing procedures, the extension of the tourist season by two months through targeted support programmes and the acceleration of the implementation of golf course projects. Also among these measures are the establishment of a national guarantee scheme for providing loans to SMEs and the better utilisation of EU structural funds.

CYPRUS WAS THE FIFTH EU COUNTRY TO REQUEST FINANCIAL ASSISTANCE, DO YOU FEEL CYPRUS RECEIVED FAIR TREATMENT IN THIS PROCESS COMPARED TO OTHER MEMBER STATES? WHAT IMPACT WILL THE TERMS OF THE MOU HAVE ON THE WIDER ECONOMY OF CYPRUS?

The government of Cyprus repeatedly expressed strong opposition to the imposition of any haircut to depositors. We clearly expressed the view that program funds should have been earmarked for the recapitalisation of the banking system, as was the case in other EU countries. Instead, the Eurogroup decided to bail in uninsured depositors. In this sense, we indeed feel that Cyprus did not receive fair treatment.

This decision has severe negative implications, in particular in the short term. Economic growth is being heavily affected and this is being reinforced by the continuing negative external environment and the necessary fiscal adjustment. Already activity is subdued and unemployment is rising rapidly.

PAINFUL MEASURES HAVE BEEN IMPOSED ON THE BANKING SECTOR, WHAT ARE THE SHORT AND LONG TERM EFFECTS OF WINDING DOWN LAIKI BANK AND THE RESTRUCTURING OF THE BANK OF CYPRUS? HOW HAVE THE OTHER BANKS IN CYPRUS BEEN AFFECTED?

All Cypriot assets of Laiki Bank have been transferred to Bank of Cyprus, together with all insured deposits and ELA obligation of around €9 billion. All employees of Laiki Bank have also been transferred to Bank of Cyprus. Therefore, those who borrowed from Laiki Bank and insured depositors will now be serviced by Bank of Cyprus. This is currently done through the previous network of Laiki Bank until the operational merger of the two banks takes place.

Uninsured depositors of Laiki Bank have remained with the legacy entity and will be partly reimbursed through the proceeds of the future liquidation. The legacy Laiki has provisionally obtained 20% of the share capital of the enlarged Bank of Cyprus and also holds some foreign assets, mainly relating to the overseas subsidiaries of the legacy entity.

The depositors of Bank of Cyprus have seen part of their uninsured deposits converted into share capital. The initial amount of deposit to equity conversion stands at 37.5%. An additional amount, equal to 22.5% of uninsured deposits has been frozen and is available for conversion should this be needed, following the assessment of an independent external evaluation.

Cyprus repeatedly expressed strong opposition to the imposition of any haircut to depositors”

“a fact often overlooked is that out of around 40 banks operating in Cyprus only two have been directly affected”

The above measures have impacted depositor confidence as well as other credit institutions. The upheaval created between the two Eurogroup decisions, including the bail-in of depositors, has created the need to impose temporary capital controls to the banking system. However, a fact often overlooked is that out of around 40 banks operating in Cyprus only two banks have been directly affected by these developments.

There is no doubt that the measures imposed on the banking sector have adversely impacted the wealth of Cypriot depositors as well as foreign depositors, who may in the future choose to direct their business operations to other jurisdictions. The reduction in wages and voluntary early retirement plans to be implemented in Bank of Cyprus and Laiki Bank will no doubt increase unemployment and reduce disposable income, with associated effects to the economy in general. That said, there were no riots against credit institutions and the banking system continues to operate smoothly.

The short term effects include a disruption in the liquidity position of the banks stemming from reduction of confidence in the banking system, which is managed by the imposition of temporary restrictive measures.

THE CAPITAL CONTROLS IMPOSED ON THE BANKS ARE SAID TO BE TEMPORARY, WHY WERE THEY NECESSARY AND WHEN WILL THEY BE LIFTED?

The capital controls are considered temporary and necessary, and were imposed to prevent significant capital outflows following the Eurogroup decisions regarding the resolution of the second largest bank in Cyprus and the bail in of uninsured depositors. However, currently 16 foreign banks have been completely exempted from capital controls and we are working hard to completely lift controls as soon as the confidence

“the path in front of us is challenging but the government stands ready to adopt all the necessary measures, including painful decisions”

in the Cypriot banking system is restored to a satisfactory level.

HOW WILL THE PUBLIC DEBT OF CYPRUS BE MANAGED AND HOW WOULD YOU RESPOND TO CONCERNS THAT CYPRUS WILL NOT BE ABLE TO PAY BACK ITS LOANS?

According to the MOU agreed with the Troika, the public debt of Cyprus will be sustainable if a number of pre-conditions are satisfied in the future. These include the achievement of primary surpluses by 2017, positive economic growth and stability in the banking sector. Without a doubt, the path in front of us is challenging but the government stands ready to adopt all the necessary measures, including painful decisions. It is important to add that the terms of the loan to Cyprus by the ESM and IMF are very favourable, with low interest rates and relatively high average maturities.

WHAT DOES THE FUTURE HOLD FOR CYPRUS AS AN INTERNATIONAL BUSINESS CENTRE, WILL IT BE ABLE TO OVERCOME THE CURRENT CRISIS AND REGAIN THE TRUST OF THE GLOBAL BUSINESS COMMUNITY?

Admittedly, the decisions taken by the Eurogroup for the financial assistance to Cyprus created a crisis of confidence, especially for its banking sector. Under these very challenging conditions, our policy responses have to be both effective and timely. We are fully aware that time is of the essence and any delays will not be in our favour. An overarching goal for us is to take measures to bring stability back to the banking sector.

“Cyprus was and remains a reputable and a reliable international business hub”

Having said that, I would emphasise that the underlying reasons that have played a significant role in establishing Cyprus as an international business centre, such as its strategic location, the sophisticated infrastructure, the highly educated workforce and the favourable tax system, are still present. One of the main strategic pillars of economic policy of this government is to maintain those advantages and further improve economic competitiveness. The key is to implement structural reforms included in the MOU and also in the EU2020 Agenda.

The message I would like to convey is clear: Cyprus was and remains a reputable and a reliable international business hub. Cyprus still offers substantial comparative advantages to foreign investors seeking a place to conduct business.

FINANCIAL AND BUSINESS SERVICES HAVE TRADITIONALLY ACCOUNTED FOR THE LION'S SHARE OF THE COUNTRY'S ECONOMIC OUTPUT. HOW WILL YOU SEEK TO RESTRUCTURE THE ECONOMY AND WHAT SECTORS WILL CYPRUS NOW LOOK TO DEVELOP?

Apart from maintaining and improving the comparative advantages of Cyprus, we aim to promote other high value-added economic areas, such as green economy. Green growth must be part of the effort to restart the economy and it will contribute to the enhancement of competitiveness and to the further development of business activities.

The government recently announced a number of decisions, for which their full implementation is expected to result in annual fuel savings amounting to €51 million, annual savings of €2 million from the reduction of pollutant emissions and the creation of 650 or more jobs.

In the medium and long term, the outlook for Cyprus is more encouraging. With the recently announced offshore natural gas discovery, Cyprus is expected to be transitioned to a new

era. We are currently handling this issue with a high degree of responsibility, also taking into account geopolitical factors. We intend to draw a comprehensive action plan for the management of all issues regarding our energy policy.

WHAT ARE THE KEY ECONOMIC CHALLENGES CYPRUS WILL FACE IN THE NEXT FIVE YEARS?

Without a doubt, the major challenge ahead of us is to bring stability to the hard-hit banking sector, to ensure it can resume its normal activity as an intermediary organisation providing liquidity to the economy. Cyprus has to achieve a significant fiscal adjustment as agreed with the Troika partners. Specifically, we have to achieve a primary surplus of 4% of GDP by 2018 under negative economic conditions, which complicate and magnify the effort required.

In the real economy, achieving positive economic growth will be a major challenge. The external economic environment is still negative, the government has to implement the necessary fiscal adjustment and the banking sector is facing problems. All these unavoidably will have an adverse impact on economic growth, but also on unemployment, which has increased to unprecedented levels.

WHAT MESSAGE WOULD YOU LIKE TO GIVE TO THE INTERNATIONAL COMMUNITY ABOUT CYPRUS AND ITS FUTURE?

Cyprus' economy has proven in the past its capability of successfully confronting challenges. We are aware of the challenges and the difficult times ahead, but are both willing and determined to act in a decisive and a timely manner. We have no other option but to undertake all the necessary measures to achieve what our citizens demand from us, to live with dignity and pride. We will also adopt measures to safeguard the trust of the international business community in Cyprus' economy. ■



How robust is Cyprus' regulatory framework? Why do you think there continues to be misconceptions about the integrity of Cyprus as an international business centre?

Cyprus Securities and Exchange Commission (CySEC)

Cyprus boasts a comprehensive regulatory framework, which underpins the country's attractiveness as an internationally recognised investment services centre. It is regularly assessed and modernised to respond to the dynamic nature of the financial markets and is fully aligned with EU legislation. Specifically, all EU directives are harmonised with, ensuring that regulation and supervision of the national securities market is at the same high standards as the rest of the EU, if not stricter in certain areas. Misconceptions are believed to be the result of inaccurate representation in international media on the financial restructuring currently taking place in Cyprus, thus unfortunately painting a distorted picture of the characteristics of the Cyprus economy.

Demetra Kalogirou
Chairwoman
Cyprus Securities and Exchange Commission (CySEC)



Deloitte

Cyprus regulatory framework is as robust as for most of our EU partners. Having been a British colony until 1960, Cyprus' system is largely based on its English counterpart. And with a highly skilled legal and accounting profession, comprising mostly of lawyers and accountants that are members of the UK Bar and Chartered Institutes, who are under external monitoring and abide to the highest of standards on regulatory and ethical matters, it is merely a misconception and no doubt unfair, for Cyprus to have the stigma of sub-standard integrity.

Christis M. Christoforou
CEO
Deloitte Cyprus



Transparency International - Cyprus

The issue of whether or not to bail in the troubled banking sector in Cyprus took on serious political overtones as the crisis deepened. Allegations of Cyprus being a centre for money laundering are very worrying not only because they are completely unsubstantiated, but also because of the timing they were made. Cyprus is clearly not the first country to face such criticism and Transparency International-Cyprus has been vocal in foreign media about the unfair and unjustified accusations Cyprus has faced in the international press. However, discussions like these do encourage authorities and regulatory bodies to re-evaluate regulations and procedures and to ensure that they are fully enforced.

Maria Krambia-Kapardis
Chairwoman
Transparency International - Cyprus



K. Treppides & Co Ltd

As an EU member state, Cyprus' regulatory framework is fully aligned with the respective EU framework, the third EU Anti Money Laundering Directive, the relevant UN conventions and Financial Action Task Force 40+9 recommendations. We have been repeatedly assessed, concluding that Cyprus has adopted measures in line with international standards and should be commended for the very comprehensive legal framework put in place. The misconceptions are driven by namely political and financial motives from competing financial centres looking for a slice of the investments and deposits flowing through Cyprus. This is completely unjust and against any free market principles. Capital and investments should be allowed to flow through business friendly jurisdictions as long as they are fully compliant with the various relevant international conventions on tax, anti money laundering and exchange of information conventions.

Kikis Treppides
Managing Director
K. Treppides & Co Ltd



Cyprus Fiduciary Association

The Cypriot regulatory framework is as strong, if not more strict and detailed, as other European jurisdictions. Misconceptions remain about the island's regulation, which are mainly driven by international media and most importantly by other competing jurisdictions. Cyprus has adopted all EU legislation for the prevention of suspicious transactions and has vigorously applied its provisions since January 2008. The Cyprus parliament also approved the law on the regulation of fiduciary service providers in 2012. The lack of such legislation also caused misconceptions about the reliability of Cyprus. Traditional client-source jurisdictions have played an important role in the integrity of Cyprus as an international business centre.

George Savvides
President
Cyprus Fiduciary Association



New Incentives Give Green Light for Foreign Investment

Cyprus will face tough times in the years ahead, but with a new oil and gas industry developing and new incentives implemented by the government to spur growth and attract investment, the country is headed toward a stronger future.



“Cyprus will continue to benefit from a low corporate tax rate, favourable double-taxation treaties, a well-educated labour force, common law system, strong institutions and relatively low structural barriers to growth. These are expected to support the service sector – in particular legal, accounting and consulting services, as well as tourism – which will drive medium-term growth”

Delia Velculescu - Head of IMF Representation in Cyprus and Member of Troika

Despite the global financial crisis and the financial bailout from the European Union and the International Monetary Fund (IMF), foreign investors have publicly shown confidence in Cyprus as an attractive investment location through their commitment to keep operations on the island.

For decades, Cyprus has been successful at attracting investors and now that the country is going through tough economic reforms, both the need and opportunities for foreign direct investment are ever increasing.

In its efforts to build a stronger future for Cyprus, the government has put in place a series of measures to boost the economy and attract investment through modernising legislation, promoting development projects, diversifying tourism, introducing tax incentives and speeding up licencing procedures.

The island's strategic location at the crossroads of three continents, has established it as an ideal gateway into EU markets as well as the Middle East, Africa and Asia – an important aspect also supporting Cyprus' plans to become a major energy hub thanks to its substantial hydrocarbons discovery.

The majority of cumulative FDI stock has traditionally been invested in the country's key

three service sectors of financial services, real estate and wholesale trade – with Greece, UK and Russia being by far the largest foreign direct investors in Cyprus.

Inward foreign direct investment in Cyprus was €979 million in 2012, according to revised data from the Central Bank of Cyprus. The latest data released before the revisions showed that the Netherlands and the UK placed the most investments in Cyprus in 2011 and there were increased flows from Europe (€694 million), Africa (€419 million) and America (€125 million). With regard to FDI stocks in Cyprus, in 2011 most investments were accounted for by the financial and insurance activities sector at €6.4 billion, the professional, scientific and technical sectors at €4.3 billion and €2.7 billion in the real estate sector.

Although the current economic climate is challenging, investors continue to enjoy the same advantages of Cyprus' modern and transparent legal system and beneficial tax framework – and with a new boom industry in hydrocarbons rapidly developing, the scope for investment is also expanding. Serious investors will find many opportunities as Cyprus restructures its economy – and with more than 340 sunny days a year it offers an ideal climate to enjoy both business and pleasure.

For decades, Cyprus has been successful at attracting investors and now that the country is going through tough economic reforms, both the need and opportunities for foreign direct investment are ever increasing.

Economy Boosting Measures

Cyprus has introduced a raft of new measures to kick-start the economy, support growth and to attract investment. The comprehensive package of new legislative measures complement a broad series of existing incentives for domestic and foreign businesses and are aimed at encouraging additional investment by existing companies.

The measures include:

- An increased 25% discount on taxable income payable by employers for each additional employee hired
- A 100% tax deduction until 2016 on capital expenditure related to innovation, research, information, communications and renewable energy
- The extension until 2016 of the increased tax deduction, with a minimum 20%, on capital expenditure on other assets

Sectors of Opportunity

In addition to the developing hydrocarbons industry, many of the traditional key sectors in Cyprus continue to offer solid investment opportunities.



Energy

The biggest potential for investment in the coming years will be in the hydrocarbons sector. According to preliminary findings, block 12 in Cyprus' Exclusive Economic Zone (EEZ) is estimated to have 7 trillion cubic feet (tcf) of natural gas; appraisal drillings are underway and the results are expected to be final by October 2013. Cyprus is set to become a natural gas exporter at a time when international demand for liquefied natural gas (LNG) is expected to rise. A memorandum for the construction of an LNG terminal in Vassilikos was signed in June 2013 between Cyprus and Noble Energy, Delek Drilling and Avner Oil Exploration. The ambitious project is of strategic importance and represents the largest investment in the history of Cyprus. The initial construction phase of building the LNG plant and the first train is estimated to take four years to complete, and additional trains will also be constructed for major energy companies currently exploring its off-shore blocks. Construction work is expected to go on for over 15 years. Investment in the production of LNG will run into the billions and there will be opportunities for related industries, such as a liquefaction plant and pipeline construction, power generation and oil product storage solutions. The government is also prioritising renewable energy sources (RES), aiming to reach 13% RES electricity supply by 2020, through wind farms, photovoltaic (PV) systems, solar thermal plants and biomass and biogas utilisation plants, providing investment opportunities in major infrastructure projects.

Banking and Financial Services

The passing of the Undertakings for Collective Investments in Transferable Securities (UCITS IV) legislation in 2012 and The Alternative Investment Fund Managers Directive (AIFMD) in 2013 have created new opportunities for the emerging fund industry of Cyprus, while foreign exchange trading is a key growth area. Despite the economic crisis the number of investment firms and funds is increasing. International banks have increased their presence over the years, and with the current restructuring of the local banking sector following Cyprus' financial crisis and bailout, there are opportunities for more foreign banks to set up operations in a market that is thirsty for funding. Niche services such as asset management, ship financing and custodian services could be areas of interest. Other investment opportunities in the banking and financial services areas that can be tapped into by international banks and financial groups are mergers and acquisitions, private equity and venture capital projects as well as financing of large infrastructure projects in the oil and gas industry, in casino and resort development and other large development projects.

Shipping

Cyprus' maritime sector is a true success story and despite the financial crisis the overall tax and operational framework for shipping in Cyprus has remained intact.

Shipping contributes over €1 billion to the country's economy annually, accounting for around 7% of GDP and directly employing 4,000 shore-based personnel and 55,000 seafarers around the world. The proven advantages of Cyprus' shipping legislation, ratified international conventions and the general framework of shipping related business have attracted many of the world's most influential names in shipping to base themselves on the island. Cyprus continues to encourage innovation in the international shipping sector, providing debate and practical solutions for worldwide issues – proof of this is an EU-approved tonnage tax that secured Cyprus' position as the largest third party ship management centre in the EU and the largest crew management centre in the world. Growing Asian demand will continue to provide new opportunities for this thriving sector. Cyprus already boasts the third largest fleet in the EU and the tenth largest in the world.

Tourism

Investment in multipurpose developments such as casinos, luxury marinas and golf courses are part of a wider project to upgrade the Cypriot tourism product. There is clear scope to extend the tourist season beyond the popular summer months and add to the 2.4 million holidaymakers currently visiting Cyprus each year. Key investment possibilities are in special interest areas such as medical tourism, sports, nautical and agro tourism, conferences, theme parks and managed attractions. A new potential area of investment is the development of state-

of-the-art casinos and the Finance Ministry has put together a set of proposals for up to five 'high-quality' casinos – preferably in tourist areas. The annual turnover of online gambling in Cyprus is reportedly around €2.5 billion and politicians and hoteliers alike have welcomed the proposals on the operation of casinos, which could open up a new stream of investment and revenue. As part of the proposal, the Finance Ministry is calling for the establishment of an independent casino supervisory authority and a strict legislative framework. Major luxury marina projects are being developed in Cyprus' coastal cities of Limassol, Ayia Napa and Larnaca, providing residential and retail investment opportunities. Cyprus also currently boasts four 18-hole international standard golf courses and the government plans to award permits to bring the total number to 11, turning the island into a golf destination of choice.

Wellness Services

Cyprus provides investment opportunities in wellness services thanks to its moderate climate, clean seas and rich natural environment. This segment is fairly under developed in Cyprus, but with the island's renowned hotels and resorts with international marketing and recognition, the potential to develop wellness tourism is well supported. Having an established tourism product ripe for diversification and with the existence of thermal springs, spas and therapy centres are of particular interest. The properties of water, with or without chemical additives, are used for therapeutic reasons and with the exceptional sea quality could contribute to an increase in thalassotherapy services. With over 340 days of sunshine, Cyprus could also be ideal for climatotherapy centres. With its well-trained human resources, strong track record in tourism and a government commitment to enhance the prerequisites for developing the sector – including training, capacity building and infrastructure – Cyprus offers many opportunities in wellness services.

Professional Services

Despite the current economic situation in Cyprus, the professional services sector continues to be strong. Staffed by experienced and highly qualified professionals, this sector is supported by a favourable and constantly updated tax regime and is the backbone supporting foreign investors in Cyprus. The expertise of the country's lawyers, accountants and other specialists – often UK or US trained – offer full and efficient services in all aspects of company law and tax planning. With around 80% of Cyprus' economy

based on the provision of services, this sector is one of the most important in the country. Cyprus was the first country in the world for the Institute of Chartered Accountants in England and Wales (ICAEW) and the Chartered Institute of Management Accountants (CIMA) to set up training outside the UK – strengthening Cyprus' reputation as a centre of excellence for professional services. Cyprus continues to be one of the leading jurisdictions used by blue chip companies and corporate planners for structuring investments into Europe and the world's leading emerging markets.

Property and Real Estate

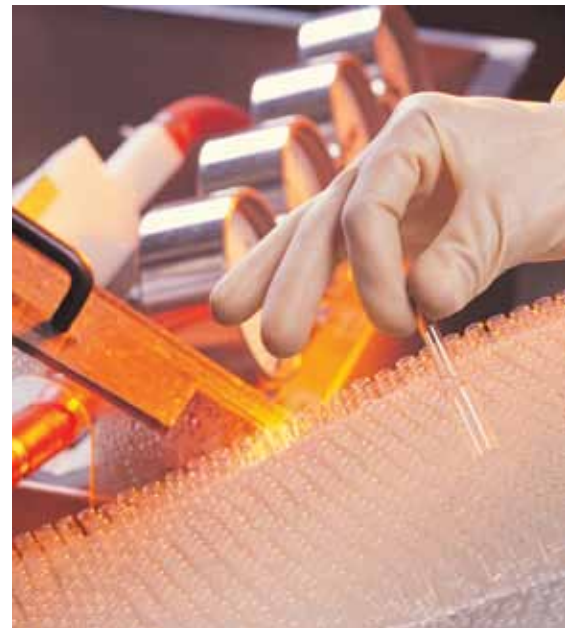
Cyprus has long been a desirable location for property investors, expats, retirees and those looking for a second home in the sun. Due to the current economic climate, property buyers can find exceptional properties at attractive prices. Meanwhile, the construction of upmarket developments continues, creating opportunities for investment and strategic partnerships. To further encourage investment from long-term residents, the government is working on simplifying the legislative framework and creating a fast-track procedure for granting long-term residence permits. Third country applicants who invest a total of €300,000 for the purchase of one or more residences will be granted permits, provided they are purchased from the same vendor. This incentive has already attracted investors from across the world and most recently Cyprus has seen an influx of Chinese property buyers. As well as tourism-related property development, a recent revision to the law on trusts has opened up opportunities for real estate investors.

Information and Communication Technologies

Recognising the crucial importance of the ICT sector, Cyprus has formulated a national digital strategy, making IT development a priority in its economic development plan. With access to major satellite systems and supported by an extensive submarine fibre optic cable network – including the world's longest optical submarine telecommunications cable SEA-MEWE-3 linking Cyprus directly with South East Asia, the Middle East and Western Europe – the island is attracting an increasing number of international companies looking for a reliable regional hub. Cyprus welcomes more foreign direct investment to expand its overall ICT services and more specifically is

WHY CYPRUS?

- A liberalised Foreign Direct Investment Policy for both EU and third country investors.
- Member of the European Union since 2004 and the Eurozone since 2008.
- Strategic location between Europe, Middle East, Africa and Asia.
- Solid experience in business with emerging markets providing preferential access to Eastern Europe, Russia, China and India.
- Political stability and good relations with both Israel and other Middle Eastern countries, further strengthening the potential of a leading role in energy by facilitating business between the region and the European Union.
- A cost-effective business centre and beneficial tax framework for international business and regional headquarters. One of the most advantageous corporate tax rates in the EU at 12.5%.
- Constantly expanding network of almost 50 Double Taxation Treaties (DTTs), includes treaties with important emerging markets such as Central and Eastern European countries, Russia, China and India.
- Transparent and modern legal system based on UK Common Law with a highly trained workforce of lawyers, accountants and corporate service providers.
- A highly qualified and multilingual workforce to support industry, with 33.6% of Cypriots between the ages of 15-64 having a tertiary education compared to the EU27 of 23.6%.
- Attractive business base thanks to good telecommunications, transport and logistics infrastructure.
- Time zone is GMT +2. Ahead of New York by 7 hours and 7 hours behind Tokyo, Cyprus allows businesses to interact with clients in both the East and West during the same working day.
- High quality of life, low crime rates and 340 days of sunshine a year.



keen to develop projects in e-Government, e-Business, e-Learning, e-Inclusion and e-Health. The Cypriot government also offers financial incentives for innovative small and medium-sized enterprises setting up on the island. With the support of a growing research community, Cyprus aims to become a centre of excellence for technology training. Both Cyprus University of Technology and the University of Cyprus provide highly qualified computer graduates to meet the sector's growing demand, while the Cyprus Institute is engaged in several ground-breaking and technologically innovative projects.

Education

With an average annual increase of 10.5% in the total number of tertiary students in the last five years, and with almost a third of all tertiary students studying in Cyprus coming from abroad, there is a great opportunity for new universities, colleges and research institutes to be initiated in Cyprus. The education sector continues to offer investment opportunities through the construction of campuses of foreign universities in Cyprus and in the provision of short (two-year) vocational and technical training courses. Currently there is a gap with little available for the non-academic students leaving high school and although a recent EU-funded pilot programme has attempted to bridge this gap, there are still significant opportunities for private sector involvement. Three areas of education that are currently experiencing a great deal of growth are oil and gas, health and online education. Oil and gas management is attracting much interest given Cyprus' natural

gas reserves and the arrival of foreign companies working in the field. In health education, The University of Nicosia is currently in the second year of offering a medical degree through the University of London, St. George's Medical School. This is the first medical programme in Cyprus and has attracted students from around the world. Online education is an increasing global trend and the University of Nicosia is working towards this venture. Other areas of potential educational investment are in electromechanical engineering, photovoltaics, car mechanics and domestic gas engineering.

Health and Medical

In the medical sector there are investment possibilities in the improvement of e-Health services to the public sector, specialised medical services and the development of rehabilitation centres. Approximately 60,000 health travellers visited Cyprus in 2010, with the overwhelming majority coming from the UK, followed by Germany, Israel and the Middle East, Sweden and Italy. The EU Cross Border Healthcare Directive, approved in 2011, has resulted in an increase of individuals looking for alternative health tourism destinations. Cyprus has been promoting the development of this sector and offers opportunities for partnerships between private companies and local government. Several investment opportunities exist to build and transfer or operate centres offering care in fields including pathology, general surgical, heart operation, plastic surgical, ophthalmology, gastroenterology, paediatrics, otorhinolaryngology, obstetrics and gynaecology, urology and orthopaedics. Particular

interest has been shown in centres providing specialised services from cardiac surgery interventions, kidney transplants and renal insufficiency care to oncology services, surgical remedial or aesthetic surgeries and neurosurgery. There is also good scope for the establishment of rehabilitative services for patients with mental health issues, respiratory problems and for people who need long recovery after surgery. Other areas of opportunity include the provision of preventive and diagnostic tests and dental treatments.

Research and Technology

Research and technology has been expanding from a low base with two key initiatives – the Cyprus Institute and the Technological University of Cyprus. The Cyprus Institute was founded in 2005 and now has links to several world-class research institutes. It has founded three research centres to date, focusing on energy, environment and water, computation-based science and technology and technology in archaeology. The new Technological University of Cyprus was established in 2007 with research focusing on geotechnical sciences, the environment, engineering and technology, health sciences, management and economics, applied arts and communication. The planned Technology Park and the promotion of incubators also offer an expanding range of opportunities for research and development investment. ■

Large Scale Projects

To help kick-start the economy and encourage investment, the Cyprus government is currently fast-tracking more developments on the island. A number of key large scale projects are currently underway.

Cyprus has officially confirmed the decision and signed a memorandum with leading energy and exploration companies Noble Energy, Delek Drilling and Avner Oil Exploration, to build a **Liquefied Natural Gas (LNG) plant** and extensive energy centre in Vassilikos to support the emerging oil and gas industry. Initial plans include a US\$6 billion LNG plant, offshore installations and a subsea pipeline from block 12 worth an additional US\$4 billion.

A €300 million oil storage and management terminal is currently being constructed in Cyprus in the Vassilikos area by **VTT Vasiliko Ltd (VTTV)**, a Cyprus subsidiary of Dutch-based Vitol Tank Terminals International VTTI B.V. The terminal, which is expected to be operational by August 2014, is the only major infrastructure project currently investing in Cyprus with 100% own equity funds.

Cyprus has given the go-ahead to establish a **casino industry** on the island. The government is assessing what model to apply in developing this new industry and is currently considering plans to build resort casinos including various services such as hotels, spas and conference centres in specific areas.

Major marina projects are being developed in the island's coastal cities of Limassol, Ayia Napa and Larnaca, firmly placing Cyprus on the nautical yachting map. **Limassol Marina** already welcomed its first yachts in May 2013 and construction work continues across the entire project, with completion expected by the end of the year and the official opening in early 2014. Limassol Marina is the first full service superyacht marina on the island boasting 650 berths. The €350 million marina project will include exclusive five-star residential units, each with its own mooring facilities, as well as commercial and retail space all within easy reach of the centre of Limassol.

The development of more golf courses in Cyprus is gaining momentum with the €1.5 billion **Limni Bay Resort** – the biggest leisure project ever conceived on the island. Cypriot businessman Nicos Shacolas announced the project in early 2013 stating the resort will include two 18-hole signature golf courses designed by Jack Nicklaus and Gary Player, a luxury hotel and wellness centre, a heliport, cultural and sports facilities, several hundred villas and holiday apartments.

Aristo Developers and Venus Rock Estates Ltd, subsidiaries of real estate investment firm Dolphin Capital Investors, sold their interest in **Venus Rock Golf Resort** to Hong Kong investors for €290 million. The entire investment is expected to reach €1.5 billion and the project will include two golf courses, a five-star hotel, two community sports centres, a commercial and leisure component as well as luxury private homes. In the Venus Rock deal, the price agreed is almost 30% higher than the value attributed to similar properties in Cyprus by the optimistic scenario of PIMCO. It is a significant transaction and has sparked renewed interest for similar deals with foreign investors.





BIO

Phidias Pilides became the President of the Cyprus Chamber of Commerce and Industry in November 2011. A Chartered Accountant, Mr Pilides has had a long career in the accounting profession, culminating in a 10-year tenure as the CEO and Chairman of PwC Cyprus. Public positions held by Pilides in the past include President of the Institute of Certified Public Accountants of Cyprus, Chairman of the Board of the University of Cyprus and Chairman of the Board of the Cyprus Investment Promotion Agency. He has been a speaker at various economic, financial and business fora and has written many articles and contributed to financial and business journals.

CYPRUS HAS NOW RECEIVED THE FIRST TRANCHE OF THE €10 BILLION FINANCIAL RESCUE PACKAGE AFTER TOUGH AND LENGTHY NEGOTIATIONS WITH THE TROIKA. ARE YOU SATISFIED WITH THE OUTCOME AND WHAT IMPACT DO THE TERMS HAVE ON THE BUSINESS COMMUNITY?

Reaching the bailout agreement as soon as possible was crucial for Cyprus and today the banks are back to business with some temporary capital controls, which are being relaxed almost weekly. So far 16 international banks have been exempted from capital controls, but these restrictions are a serious issue. We understand that there may still be a need to maintain the wider controls to avoid the expatriation of money, but the position of the chamber is that all restrictions relating to local transactions should be immediately lifted. Of course there is general disappointment about the economic situation, but life is slowly getting back to normal. While most foreign companies might bank somewhere

INTERVIEW

Phidias Pilides

President, Cyprus Chamber of Commerce and Industry

ALTHOUGH FACING CHALLENGING ECONOMIC TIMES, FORMER CEO OF PWC AND CURRENT PRESIDENT OF THE CYPRUS CHAMBER OF COMMERCE PHIDIAS PILIDES IS CONFIDENT CYPRUS WILL RECOVER THANKS TO ITS NEWFOUND HYDROCARBONS WEALTH AND STRONG PROFESSIONAL SERVICES SECTOR.

else now, they will continue to conduct their business in Cyprus as all the previous advantages are still in place. Businesses with large deposits in the now-closed Laiki Bank have been hit the hardest, and also those with deposits in the Bank of Cyprus. The terms of the bailout are very tough on Cyprus, but we are optimistic that once we see the immediate effect of the shrinking of the banking sector and the possible loss of foreign deposits, we can start to rebuild Cyprus as an international business centre.

HAS THE NEED FOR A SUPPORT MECHANISM AFFECTED INVESTOR CONFIDENCE OR THE REPUTATION OF CYPRUS AS AN INTERNATIONAL BUSINESS CENTRE?

Requesting a bailout in itself has not affected the confidence of business people who understand what the situation means in real terms, but the general public and public opinion in Europe has been affected. There should have been stricter supervision of the banks from regulatory authorities, but the key reason for the present situation, especially in the case of the banks, is an external one – the exposure of Cypriot banks to the Greek market and government bonds. The idea of a European banking union makes sense. If we have a common currency, we cannot have different rules in different countries.

The negative commentary in foreign press and particularly in the German press has definitely damaged the reputation of Cyprus. This has to be reversed. If there is to be discus-

sion about Cyprus, it must be based on facts. Cyprus is a credible and secure international business hub. We have a transparent and EU-compliant legal system, which is well defined and based on UK common law. The business environment also operates on the British model and the financial services professionals are very highly qualified, which is why for decades Cyprus has been very successful in attracting international business. Despite the current difficulties and being in our third year of an economic crisis, we have been able to maintain a strong position and even seen a modest increase in attracting international business to the country.

CYPRUS IS ON THE OECD WHITELIST, WHICH IS A VOTE OF CONFIDENCE FOR A TRANSPARENT TAX SYSTEM. WHY DO YOU THINK THERE CONTINUES TO BE MISCONCEPTIONS ABOUT THE INTEGRITY OF CYPRUS AS AN EU-COMPLIANT AND REGULATED BUSINESS CENTRE?

We have been assessed many times and rate stronger and better than many advanced economies in Europe. As for misconceptions, the majority stem from politics. With tough economic times in Europe and elections in various countries, it is a sensitive issue to ask taxpayers to contribute to the bailout of another country and this is often used in party politics. Greece and Portugal experienced similar debate when they requested bailouts. There is also a general misconception about Russian business in Cyprus. When the Soviet Union fell, a lot of 'black money' left Russia and ended up in countries all over the world. Since then Russia has strengthened its own anti-money laundering measures and there are state level agreements between Cyprus and Russia, regulating how business transactions and investments are conducted between the countries. These measures prevent to a large extent the ability to launder money in Cyprus.

“the key reason for the present situation, especially in the case of the banks, is an external one – the exposure of Cypriot banks to the Greek market and government bonds”

ABOUT

The Chamber's membership exceeds 8500 enterprises representing more than 95% of the business community of Cyprus. More than 150 Professional Associations are also affiliated to the Chamber including 28 Bilateral Associations with other countries. Its wide range of services include advisory services, provision of business information, participation in foreign trade exhibitions, organisation of trade missions and business fora abroad for promoting Cyprus as an international business centre, business training courses and seminars, advice on European Union issues, labour relations matters, issue of Certificates of Origin, ATA-CARNETS and participation in EU programmes. The Chamber is a full member of Eurochambers, the International Chamber of Commerce (ICC), the European Association of Craft, Small and Medium Sized Enterprises, Eurocommerce, GS1 and many other international business representative organisations.

“if you consider money laundering as saving on taxes by applying double tax treaties between two countries, then yes, Cyprus is guilty”



“some estimate the potential hydrocarbon reserves discovered in Cyprus’ Exclusive Economic Zone could be compared to those of Azerbaijan”

HOW WOULD YOU RESPOND TO ACCUSATIONS ABOUT A LACK OF TRANSPARENCY IN CYPRUS IN TERMS OF BUSINESS?

These accusations are completely unjustified and we have adopted all European directives to achieve transparency. There are also misconceptions about what money laundering consists of. If you consider money laundering as saving on taxes by applying double tax treaties between two countries, then yes, Cyprus is guilty. Of course this is nonsense, as these are formal and legitimate treaties between countries, helping businesses to become more competitive globally. We have been subjected to four checks by the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) in the last decade and both the previous and current government have stated we are open to any check by any official European or international organisation.

WHAT HAVE BEEN THE REACTIONS TO THE RAISING OF CORPORATE TAX IN CYPRUS FOLLOWING THE FINANCIAL BAILOUT AGREEMENT?

There has been a small increase in corporate tax from 10% to 12.5%, but it is manageable and we still have one of the lowest tax rates in Europe, on par with Ireland. Reactions to this tax hike have been calm and positive. Businesses using Cyprus as a base for their regional and international operations have not been severely affected and I do not expect many businesses to leave Cyprus, as all the comparative advantages for business have been safeguarded. The current tax framework is the result of a complete tax reform in 2003, before Cyprus joined the EU and was achieved in total agreement with the taxation chapter of the EU.

WHAT IMPORTANT REFORMS HAS CYPRUS ALREADY IMPLEMENTED AND WHAT PROACTIVE STEPS ARE BUSINESSES TAKING TO STRENGTHEN THE ECONOMIC ENVIRONMENT?

Many companies are doing face-to-face meetings with their existing clients to reassure them and update them on the situation. We are also proposing more incentives to support the existing business community and to attract newcomers. However, overall the situation is relatively calm and secure. Cyprus has been proactive and taken the initiative to pass several new laws with the aim of reducing public expenditure and improving the efficiency and productivity of the government. Two sets of economy-boosting measures have already been announced and a third set is expected soon. The new measures have focused on making investment projects in Cyprus more attractive. Tax incentives are an important aspect, especially in the area of the repatriation of money invested in Cyprus or deposited in our banks. The President has been very active at pushing forward initiatives and following up on their speedy implementation. As for the responsibility of the private sector, what we need first is a strategic vision from the government on how the economy can move forward and what sectors are most likely to recover fast. Once we have this in place, we can implement strategic plans as to how to achieve this vision and implement incentives to drive these sectors forward and attract new investments.

THROUGHOUT ITS HISTORY CYPRUS HAS PROVEN RESILIENT IN THE FACE OF CHALLENGES, WHAT GROWTH AND INVESTMENT PROSPECTS DO YOU SEE IN CYPRUS AT THE MOMENT?

Tourism and international business are the

two strong growth sectors of the economy and thankfully they have been showing an increase even throughout the crisis. In addition, exports and re-exports through Cyprus have been showing a healthy increase in the last few years. Another significant sector to take into account is energy. Some estimate the potential hydrocarbon reserves discovered in Cyprus’ Exclusive Economic Zone could be compared to those of Azerbaijan. Our hydrocarbon reserves could also contribute to the energy needs of the EU. Investment in Cyprus’ energy sector has already started with the licensing of blocks for hydrocarbons exploration to major energy companies, which will also boost other sectors in Cyprus. Also a memorandum has now been signed for the construction of a Cyprus LNG terminal between the Republic of Cyprus and Noble Energy, Delek Drilling and Avner Oil Exploration. This agreement signifies the largest investment in the history of our country.

HOW DO YOU SEE CYPRUS DEVELOPING OVER THE NEXT FIVE YEARS?

Cyprus’ economy has been severely affected. I expect unemployment to rise and businesses are sure to face many challenges, but it is crucial we start not only rebuilding, but rebranding the economy immediately. We need a strategic vision and an action plan from the government on how to direct and strengthen the economy. To encourage specific types of industry in Cyprus, we need to identify and prepare generous incentives accordingly. We are very focused on reducing domestic unemployment, but we should avoid becoming narrow minded in excluding foreign labour, because if we want to encourage niche industries we also need expertise and ideas from other countries to support their development as they will also benefit peripheral services. Cyprus started off as a business centre, but developed also into a finance centre over the years. We are no longer a strong financial centre – however we remain a reliable business hub with an attractive operating environment and modern infrastructure. In rebranding terms we should focus on the quality of our professional services and double tax treaties, the simplicity of our advantageous tax system and the soundness of our legal and judicial system, but without the banking element – as this sector will take time to recover. However, we have several other strong sectors that will help us recover and grow and we must now be more innovative to develop and diversify our economy. Tourism will continue to go from strength to strength and we will have a new sector in the mix soon, energy. There is a silver lining to this disaster as the reforms being implemented will allow Cyprus to come out of this crisis more productive, efficient and stronger than ever. ■



As a key pillar of Cyprus' international business centre, the professional services sector has been the main driver for growth. What are your expectations for the sector?

Baker Tilly

In my opinion, the advantages of Cyprus are unique and accordingly growth is expected once the current global economic crisis is over. I believe that the restructuring of the banking sector will facilitate the reactivation of businesses. In addition higher investment activity is expected in the energy sector following the discovery of natural gas in the Cyprus Exclusive Economic Zone. There are also areas with considerable potential which have not yet been fully exploited, such as developing Cyprus as a leading medical centre or educational centre in the region thus utilising the abundance of highly educated and trained Cypriots who are currently looking for employment abroad.

Marios Klitou
CEO
Baker Tilly



Ernst & Young

Over the past year Cyprus has faced exceptional challenges to restore the viability of the financial sector and its public finances. Despite the issues with the local economy, comparative studies still show that the favourable environment for international business companies remains: The tax regime is very competitive, operational costs are relatively low and the professional services are world class. Cyprus is also a great place to live and work in. We will continue to offer sound, honest advice to our clients to help them improve and grow their international operations from their base in Cyprus.

Andreas Demetriou
Managing Partner
Ernst & Young Cyprus Ltd



Andreas Neocleous & Co LLC

I have great confidence for the future. Cyprus' history as a commercial centre dates back to Biblical times. We have faced great challenges in the past, and have overcome them. Our people make excellent accountants, bankers and lawyers, and we have developed a niche as the natural intermediary for investment into Russia and Eastern Europe, based not only on commercial factors but also on a shared Orthodox heritage. If we focus on providing the best possible service to the people who entrust us with their business, and do not allow ourselves to be distracted, we will continue to succeed.

Andreas Neocleous
Chairman
Andreas Neocleous & Co LLC



KPMG Cyprus

The decision of the Eurogroup has severely affected our banking system and the confidence of foreign investors. It will require hard work to regain credibility. However, Cyprus is still a strong services centre, with a competitive tax regime and highly skilled personnel. Although we will face difficulties in the next years I am confident that in the medium term the sector and the economy, in general, will experience growth, having in mind that we move closer to the period where the commercial exploitation of gas resources will commence.

Andreas Christofides
Managing Director
KPMG Cyprus



Chrysses Demetriades & Co. LLC

The services industry was mainly comprised of professional services and banking. Whilst banking has been hard hit, the corporate services and tax system has managed to weather the storm so far. Overall we have seen that we are trusted by major groups overseas. The services industry will continue to be stable in the short to medium term and will grow in the long term as trust returns. One cannot discount opportunities created by international investment in the nascent hydrocarbons industry and attempts to create a casino industry in Cyprus. The crisis will create a more user friendly and transparent system optimising the strategic and financial benefits of the island, leading us out of the crisis.

Christos Mavrellis
Managing Partner
Chrysses Demetriades & Co. LLC





BIO

Christodoulos E. Angastiniotis is the Chairman of the Board of CIPA and the Chief Executive Officer of VitaTrace Nutrition Ltd Group. He is also the Vice President of the Cyprus Chamber of Commerce and Industry, President of Lefkosia Tourism Development and Promotion Company and President of The Veterinary Pharmaceutical Importers Association. He has participated in various economic, financial and business promotion seminars worldwide, presenting a number of papers on the role of Cyprus as a regional business and commercial centre. Angastiniotis studied in the UK and holds a post graduate degree MSc in Management Sciences from the University of Cranfield.

THE BAILOUT DEAL BETWEEN CYPRUS AND THE TROIKA HAS NOW BEEN REACHED, BUT THE BANKING CRISIS HAS NEGATIVELY AFFECTED CYPRUS' IMAGE. DOES CYPRUS HAVE A FUTURE AS A BUSINESS CENTRE?

Following current developments the financial sector will be downsized, but Cyprus continues to be a competitive business centre with all of the same advantages – such as the beneficial tax framework, close to 50 double tax treaties, high quality of life and excellent service provision. At the same time the economy overall is expected to become more competitive adding another edge to its development. Being an EU member state and with our strategic geographical location between three continents, Cyprus is also an ideal gateway for third countries to access European markets. Although facing challenging times today, we have a bright future and will rebuild Cyprus into the strong and efficient jurisdiction it has been for decades.

INTERVIEW

Christodoulos Angastiniotis

Chairman, Cyprus Investment Promotion Agency (CIPA)

SIGNIFICANT REFORMS AND NEW MEASURES TO FAST-TRACK INVESTMENT ARE SET TO BOOST THE ECONOMY AND ATTRACT NEW BUSINESS TO CYPRUS, SAYS CIPA CHAIRMAN CHRISTODOULOS ANGASTINIOTIS.

IN ADDITION TO BUSINESS AND FINANCIAL SERVICES, WHICH SECTORS OF THE ECONOMY ARE SHOWING INCREASING GROWTH AND OPPORTUNITY?

Tourism is increasing every year with markets such as Russia and Ukraine growing rapidly. We have maintained our traditional UK market and are seeing more interest from a number of other central European countries. Cyprus is taking important steps to diversify the tourism product and attract 'high-spending' tourists by building luxury marinas and golf courses as well as upgrading our hotels and services – and a new addition to our product offering will be casinos. We are also taking steps to attract more sports, cultural, religious and medical tourism, which is a big opportunity for Cyprus thanks to its many excellent private hospitals and highly qualified doctors.

Shipping is another formidable sector and accounts for more than 7% of the GDP and we fully support the decision of the new government to create a new ministerial level position with sole focus on the shipping sector. Shipping is one of the success stories in Cyprus and the tax tonnage law passed in 2010 is the only EU-approved system in place today.

The energy sector of Cyprus has great prospects. This new-found wealth from hydrocarbons will certainly filter into all sectors and boost the economy. We have signed agreements with an Italian and South Korean consortium ENI/Kogas and with French energy giant Total to start natural gas exploration in Cyprus' Economic Exclusive Zone following the successful exploration results of Nobel

Energy in December 2011. Also the foundations of the largest-ever investment in Cyprus were laid recently with the signing of a memorandum for the development of a Liquefied Natural Gas (LNG) terminal by Cyprus and a US-Israeli partnership. The target is the creation of a joint venture between the parties that will serve as a special purpose vehicle seeking investors for the estimated €7 to €8 billion LNG terminal to be built at Vassilikos.

THE WORLD-CLASS DISCOVERY OF NATURAL GAS IN CYPRUS' EEZ IS SPARKING A LOT OF INTEREST TO INVEST IN CYPRUS, HOW DO YOU THINK THIS WILL AFFECT THE CYPRUS ECONOMY AND WHAT OTHER INVESTMENT OPPORTUNITIES AND POTENTIAL FOR GROWTH DO YOU SEE AT THE MOMENT?

The discovery will bring more business and hydrocarbons expertise into the country. The natural gas reserves also open opportunities for new business, especially to energy consuming industries such as aluminium industries. Many of these are now located in neighbouring Middle Eastern countries and are now showing interest to relocate to Cyprus for two reasons: to operate within the EU to avoid paying import duty and to utilise our future cheap energy from natural gas for these high energy consuming industries. One of the biggest consumers of aluminium is the motor industry, which is mainly based in Europe.

THERE HAS RECENTLY BEEN A LOT OF CRITICISM ABOUT THE CLOSE ECONOMIC RELATIONS BETWEEN CYPRUS AND RUSSIA WITH ALLEGATIONS OF MONEY LAUNDERING AND TAX EVASION IN CYPRUS. HOW WOULD YOU RESPOND TO THESE COMMENTS?

These are unjustified claims. Why are no other low tax EU jurisdictions facing these questions as they also have a fair share of

“the energy sector of Cyprus has great prospects. This new-found wealth from hydrocarbons will certainly filter into all sectors and boost the economy”

Russian business? For example 23% of FDI into Russia goes through the Netherlands, Malta and Luxembourg. Cyprus is going through an economic crisis and when you are in a vulnerable position, you are an easy target. Cyprus is on the OECD Whitelist, we have an on-going commitment to adhere to all international and EU anti-money laundering (AML) procedures and Cyprus is fully harmonised with EU legislation. We have an extremely stringent and well-monitored AML system, which has been favourably rated by the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). The European Commission's own tool ranks Cyprus at the top of its relevant list. It should be noted that Russia itself has placed Cyprus on its White List thus trusting the right measures are in place. After all, it would be Russia that would lose out on money laundering in Cyprus. Cyprus also ranked better than many EU countries – including Germany and the Netherlands –

ABOUT

CIPA is a private sector organisation belonging entirely to the government and is managed by a board of 15 people mostly from the private sector, including bankers, lawyers and accountants. CIPA promotes Cyprus as a preferred investment location, offers support services to investors and makes the necessary regulatory amendments to improve the attractiveness of Cyprus for investment. CIPA was ranked 5th among 189 organisations globally in the World Bank report 'Global Investment Promotion Benchmarking 2012' for the promotion of foreign investments, specifically for the application of best practices in respect to the collection, analysis and provision of information to investors.

“Cyprus continues to be a competitive business centre with all of the same advantages”

“Cyprus also ranked better than many EU countries, including Germany and the Netherlands, in its anti-money laundering regulation in the Basel Institute on Governance report”

in its AML regulation in the Basel Institute on Governance report.

We hope the recent comprehensive investigations into AML provisions in Cyprus by Deloitte (Italy) and MONEYVAL will draw a line under misinformed speculation on this topic. MONEYVAL officials said the inspection was an unprecedented experience focusing on compliance, reviewing 13 banks and covering over 70% of bank deposits. The review went into such depth that MONEYVAL itself conceded that no country could emerge totally unscathed. The reports suggest the standard preventative building blocks are in place in Cyprus and point more specifically to a solid level of compliance on Customer Due Diligence across all key players in the banking sector, including lower sensitivity thresholds in terms of ultimate beneficial owners investigated. The inspection also showed a very low level of suspicious activity or transactions requiring further investigation – 29 of 570,000 (0.005%) according to Deloitte. Investigators also commended Cyprus for taking a proactive approach and tailoring requirements to the unique risks of the jurisdiction.

Transparency and security are crucial aspects for a business centre and there has been no basis for these claims circulating in international media. Now we have the challenge of combating this dent in our reputation and regaining the credibility and trust of our European neighbours.

CYPRUS HAS A LONG HISTORY WITH RUSSIA – BOTH ECONOMICALLY AND CULTURALLY – AND IT CONTINUES TO BE A KEY MARKET FOR BUSINESS AND TOURISM. COULD YOU EXPLAIN WHY THERE IS SO MUCH RUSSIAN INTEREST IN CYPRUS? HOW IMPORTANT IS RUSSIAN BUSINESS TO CYPRUS?

Russian business continues to be very important and recent developments have hurt relations, but we are working hard to recover from these setbacks.

Cyprus and Russia have a long history of doing business together and many Russians have moved to Cyprus over the decades. The sunny climate and the familiarity with sharing the Orthodox Christian faith makes Cyprus an ideal location to live and work. It is relatively easy for Russians to get a visa to Cyprus and Moscow is only a three-hour flight away, which is the same time many Russians have to sit in commuter traffic. The strong business relationship, tax efficiency and tax treaties that pre-existed the breakup of the USSR have provided a great infrastructure for Russian companies. Limassol in particular has a significant Russian community hosting Russian schools, churches, newspapers and radio stations, which make Cyprus a comfortable home away from home.

WHAT COUNTRIES ARE SHOWING INVESTMENT INTEREST IN CYPRUS? IS CYPRUS ACTIVELY TARGETING ANY SPECIFIC MARKETS GLOBALLY?

Our significant natural gas discovery has increased interest in Cyprus – not least from the US, who is a leader in the field, but also from Europe and the rest of the world. Israel and other neighbouring countries have shown interest in fields like research and development and medical tourism. We are also seeing interest from the Gulf countries mainly in large-scale projects and developments. China is another emerging market for Cyprus and has already given a boost to the construction and real estate sector with the sale of more than 1000 homes to Chinese buyers. In the long term, China could become the next Russia for Cyprus in terms of business and our good relations have set the foundations for future opportunities.

Additionally, following the Arab Spring, many Egyptians and Syrians are looking at Cyprus as an option for their business due to the close proximity, the physically and legally safe operating environment and the similar Eastern Mediterranean culture.

CIPA IS OFTEN THE FIRST POINT OF CONTACT FOR INTERNATIONAL BUSINESSES LOOKING TO INVEST IN CYPRUS. ARE YOU SEEING ANY EVIDENCE OF A LOSS OF INVESTOR CONFIDENCE?

There has not been a loss of interest – on the contrary we have had a slight increase in investment inquiries. This economic crisis is also seen as an opportunity for many investors. To support business we have also implemented a mechanism to fast track the licencing of major investment projects into Cyprus and hope this will help counter balance the current economic situation.

WHICH SECTORS OF CYPRUS' ECONOMY ARE CURRENTLY PROVIDING THE MOST INTERESTING OPPORTUNITIES FOR FOREIGN INVESTMENT?

Energy, tourism and education are some of the most interesting areas for foreign investors. Also investment opportunities in large-scale projects, such as the development of luxury marinas, golf courses and multi-use residential complexes have been attracting significant interest from abroad. Research and private education catering to the foreign market has been growing steadily, transforming Cyprus into a major educational centre in the Eastern Mediterranean. Medical centres and hospitals that cater to the growing market of international medical tourism are also an increasingly interesting opportunity for investment into Cyprus.

HOW DO YOU SEE CYPRUS DEVELOPING OVER THE NEXT FIVE YEARS?

The local economy is expected to have a challenging transition period over the next few years and we will suffer, but I am optimistic. The international organisations with offices and headquarters in Cyprus will find it significantly less challenging as their market is not limited to the economy of the island. The government is approving measures aimed at boosting our economy, which will include fast-tracking permits for large projects, tax breaks, and relaxation of measures to encourage foreign investment. President Anastasiades has also announced that the Cyprus company registrar will be fully automated in the next six months to speed up and simplify procedures. Bureaucracy was an obstacle holding up projects in the past and we are committed to creating a more efficient system that will support the business environment. We are finally restructuring and implementing reforms that are long overdue and with hard work we will get back on our feet and become even stronger. And once we start to profit from our hydrocarbons discovery, Cyprus could be one of the richest per capita countries in Europe. ■

“the government is approving measures aimed at boosting our economy, which will include fast-tracking permits for large projects, tax breaks, and relaxation of measures to encourage foreign investment”

The Sun Still Shines in Cyprus

Sunny Cyprus has not lost its appeal as a popular tourist destination in these tough economic times. Although the traditional 'sun and sea' destination is implementing heavy austerity measures today, to a visitors' eye there is not much evidence of an economic crisis. The country has welcomed the summer season with open arms and with the island's beaches and many historical sites full of happy faces, life seems more or less back to normal.

Hotels, shops and restaurants are open, public transport is functioning, banks are open, ATMs are working normally and there are no signs of queues or general panic. However, the one thing visitors may spot is lower prices and better deals.

Cyprus has maintained its position as a popular holiday spot thanks to its welcoming atmosphere, safe environment and 340 days of sunshine. The island also got top marks again this year for having some of the cleanest beaches in Europe. All 112 beaches tested in Cyprus for a recent European report proved

to have 'excellent' water quality, putting the island at the top of the EU for bathing.

Although Cyprus witnessed a decrease in visitors in April and May, the chairman of the Cyprus Hotel Association Charis Loizides is optimistic that tourist bookings in July, August and September – the busiest months – will cover the losses that were recorded in the tourist industry over the last two months.

Cypriot hoteliers have also reacted to the economic crisis and have come up with a number of deals for their foreign customers offering a 20-25% decrease in their prices. Not forgetting their local customer base, they are also introducing offers to Cypriots and residents on the island, who account for 7% of the total accommodations throughout the year.

For decades, tourism has been one of the key economic drivers for Cyprus and with new incentives and efforts to diversify and raise the quality of the product, this sector is expected to grow and remain attractive to visitors and investors alike. ■