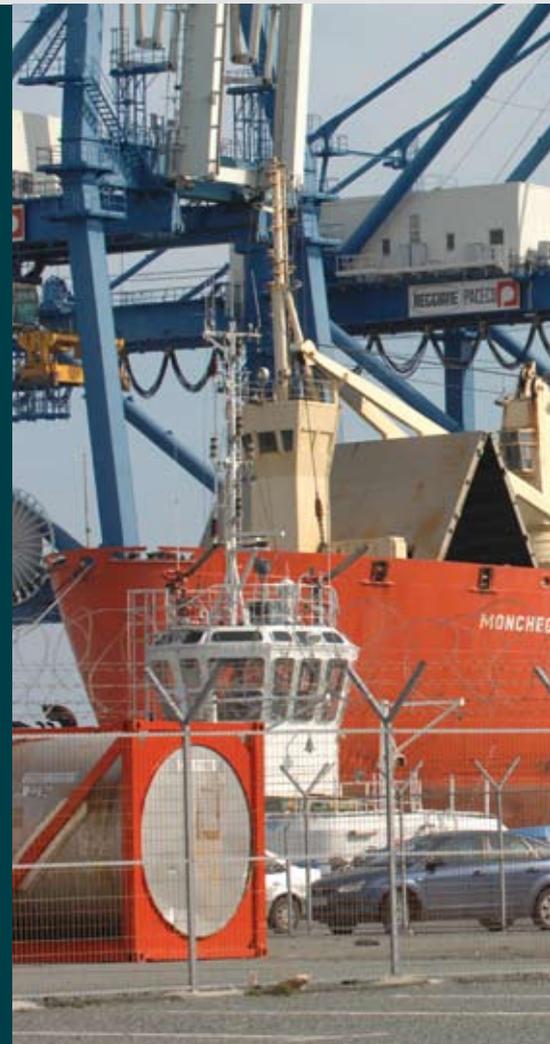


# COMPLETE VALUE PROPOSITION

Cyprus has always played a major role as a trading and business centre due to its strategic location at the crossroads of three continents. The implementation of wide-ranging structural reforms has led to the creation of new business opportunities for dynamic investors



**Cyprus is striving to establish its credentials as a European bridgehead into the expanding markets of the Middle East, Russia and eastern Europe. Since becoming the easternmost member of the EU in 2004 and joining the eurozone last year, the government has been promoting the country's strategic location and other major advantages.**

Foreign investors can rely on a broad offering of professional services, with a legal system based on UK common law and International Financial Reporting Standards now in force. Major international firms such as PwC and KPMG each have some 1000 staff working in Cyprus, and more than half of the island's lawyers hold UK legal qualifications.

"Cyprus is the gateway for the movement of goods and services inside and outside the borders of Europe," says Marina Theodotou, director of business and development at Cyprus Investment Promotion Agency ([www.cipa.org.cy](http://www.cipa.org.cy)). "Our competitors are defined by their geographical and sectoral focus, but the advantage of Cyprus is membership in the EU."

Ms Theodotou says that the country's favourable tax regime is another strong incentive for investors. "Our 10% rate of corporate tax is the most attractive in the EU,"

she says. "Bulgaria offers the same rate, but we have a lot more that goes with it. For instance, we have a network of double taxation avoidance treaties with more than 40 countries, eliminating or enabling lower withholding tax rates on dividends or other income received from subsidiaries abroad. Also, we do not levy a withholding tax on capital gains or the distribution of profits."

#### ACADEMIC ADVANCEMENT

Ms Theodotou says that the country's human talent is a further competitive advantage. "Cyprus has been classified a 'knowledge economy' in the World Economic Forum competitive index," she says. "We are ranked top among EU countries in terms of the proportion of university graduates in the population. Specifically, as of 2007, the level in the 25 to 34 age group was 47%, compared with the 29.9% EU average." Moreover, some 75% of school leavers go on to tertiary education.

Cyprus is determined to become a regional education centre and this is in fact one of the sectors in which the government is seeking to attract investment under new legislation covering the establishment and operation of private universities. The sectors assigned investment priority status under the

Strategic Development Plan 2007/13 include banking and financial services, information and communications technology (ICT), medical services, wellness tourism, professional services, R&D, shipping, renewable energy and environmental technologies.

#### FINANCIAL BACKBONE

Financial services, which account for 8% of gross domestic product (GDP), remains a thriving industry in Cyprus despite the global credit crunch, which only had an indirect impact on Cypriot banks. "Our banks invested abroad, mainly in the UK, eastern Europe, Australia and Greece, instead of investing in toxic assets," says Dr Michael Kammass, director-general of the Association of Cyprus Banks. "Business is down this year from 2008, but the banks are still profitable." At present, 43 foreign banks are licensed to operate in Cyprus, but Mr Kammass says that opportunities still exist. "This is true especially if a bank wants to specialise," he says. "We are also seeing investment companies coming to the market, as well as Islamic finance groups enquiring about Cyprus as a springboard to the EU." However, investors with an eye on the domestic market should be aware that the level of competition is fierce, in particular between the retail banks and co-



Shipping hub: Limassol's deep sea multipurpose port

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operative credit societies, which account for 25% of the lending market.

The financial services sector is strengthened by an efficient and transparent stock exchange that has been in operation in its present form for the past 13 years. “We offer a wide spectrum of services and products, as well as T+3 settlement,” says Nicos Tripatsas, chief officer of the Cyprus Stock Exchange ([www.cse.com.cy](http://www.cse.com.cy)). “We now have 130 companies listed on the exchange and market capitalisation of €15bn, and we also share a common platform with Greece. Listing fees are the low-

est in the EU, dividends are not taxed for non-residents and there is no capital gains tax.”

#### RENEWABLE POWER

Energy is emerging as a key factor in the country's growth potential. Water shortage is perhaps the most critical problem, with Cyprus having had to spend €50m last year to import water from Greece. Cyprus enjoys more than 300 days of sunshine a year – good for the tourism industry, but the result is that Cypriots face daily water cuts and the authorities have decided that the way forward is in desalination projects, another investment opportunity.

Linked to this is the issue of renewable energy, with the focus on wind power. The €170m, 82-megawatt capacity Orites wind farm, due to start operating in 2010, is the island's first private-sector power project. The project was built by Vestas Wind Systems and is managed by DK Windsupply Ltd, a Cypriot-based development company, in conjunction with Platina Partners, a London-based private equity group.

The government is keen to attract more investment in this area, which will avoid an EU fine for CO<sub>2</sub> emissions and reduce the country's oil import bill. Solar energy is a high-growth industry and Cyprus now ranks first

worldwide in domestic per capita solar energy use for water heating.

#### IT EXCELLENCE

Cyprus has given priority growth status to its ICT sector and is seeking FDI to expand and develop 'e' projects in government, business, health, learning and inclusion. The sector is relatively advanced and investment is aimed at the high-value-added end, with mobile phone subscriptions, business broadband and household internet usage all above the EU average. Investors in this area will find a highly skilled pool of workers, with Cypriot universities turning out more than 1000 mathematics and computing graduates a year. In fact, the high level of education among the workforce is one of the island's problems, in that Cypriot youth are reluctant to take on unskilled jobs, which are mostly filled by immigrant labour.

On the other hand, labour conflicts are all but unknown in Cyprus. According to the Ministry of Labour and Social Insurance, in 2003/07 Cyprus was 27th in a ranking of labour conflicts in 28 OECD countries, with one strike recorded in this period. “We have one of the world's most efficient codes of industrial relations,” says Costas Christofides,



**Branching out: Cyprus is embracing renewables, with a focus on wind power**

assistant director-general of Cyprus Employers and Industrialists Federation (OEB). "It is based on a tripartite gentleman's agreement between employers, the unions and the government as mediator. The system protects employees under EU regulations, but it also allows employers to protect their own interests through lockouts, though it should be noted that this has only been used twice in the past 25 years." This is of particular interest to the more than 40,000 foreign companies registered in Cyprus.

### SHIPPING BASE

Investors using Cyprus as an export base benefit from the country's free zone, port facilities and shipping fleet. The Larnaca Free Zone, for instance, is connected by road to the city's airport and port, while rented facilities can be used as collateral for bank loans. Rent is a token €1.7 per annum for the first five years and the government has ensured this facility has an abundant supply of water.

The country has two deep sea multipurpose ports, at Limassol and Larnaca, at the crossroads of Europe, the Middle East and Africa. The island's merchant fleet has been growing steadily and is now ranked third largest in Europe and 10th globally. More than 2100 vessels with 43 million gross tonnage are registered in Cyprus and the country operates an open registry system, allowing foreign citizens to register ships under the Cypriot flag.

This is a key sector in the country's economy, contributing some 4% to gross domestic product, with more than €1bn in annual receipts from the maritime transport sector. Some of the world's largest ship management

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companies are headquartered in Cyprus, including Columbia, Bernhard Schulte and Marlow Navigation.

### CYPRUS' CORNERSTONE

Tourism remains the mainstay of the Cypriot economy, accounting for about 15% of GDP and generating nearly €2bn in income annually. The industry has suffered from the economic downturn in Europe and specifically due to the recession in the UK, which accounts for half of Cyprus's 2.4 million annual foreign visitors. The government is open to bringing in foreign investment to help diversify the country's tourism industry, specifically by upgrading the facilities on offer.

"There are now at least a dozen golf courses under construction and several marinas are also being built," says Panayiotis Loizides, secretary-general of the Cyprus Chamber of Commerce and Industry. "Cyprus is trying to boost standards to attract higher-income tourists, and as part of this it is offering incentives to investors to upgrade hotels." Investment in luxury facilities has been the focus of the drive to attract year-round visitors

and this includes yachting, wellness and spa developments among the priority projects.

In an uncertain economic environment, and with the OEB and the Ministry of Finance forecasting a rise in unemployment to about 5.5% this year from 3.7% in 2008, the government is anxious to safeguard the jobs of the tourism sector's 100,000 direct and indirect workers.

### EASE OF BUSINESS

Investors speak with enthusiasm about Cyprus' one-stop-shop facilities serving local and foreign companies. From company and value added tax registration to social insurance fund and employers' registration and applications for residence and work permits, Cyprus Investment Promotion Agency helps facilitate a smooth and seamless process.

Cyprus' complete value proposition is highlighted by its EU and Economic and Monetary Union membership, strategic location, robust credit ratings (Moody's Aa3, Fitch AA- and S&P's A+), a wide and efficient network of legal, accounting and banking services, advanced telecommunications network and easy travel, among other features.

Cyprus' advanced infrastructure, among other attractions, makes it a prime location for serving high-net-worth individuals seeking top-quality professional financial advice and management. "There is no doubt that Cyprus has now firmly established itself as a finance centre within the EU, offering substantial private wealth planning and efficient corporate planning opportunities," says Lee Francis, country director of Barclays Wealth Cyprus. "It operates as a bridge across the old east and west divide and its well-regulated infrastructure, geographical position and sound business platform



**Multifaceted economy: Cyprus provides innovative mechanical solutions for the oil and gas industries**

mean entrepreneurs on both sides are finding it an increasingly attractive jurisdiction through which to route business."

Jean-Claude Boloux, general manager of Société Générale Cyprus, says that the bank's strategic position on the island allows it to service an extensive range of clients, by taking advantage of its broad network of branches worldwide. "Our bank's location at the crossroads of Europe, the Middle East and Africa allows for a plethora of business prospects in the region and beyond," he says.

Cyprus' Finance Minister Charilaos Stavrakis supports this testimonial from a private sector viewpoint, saying financial services contribute about 25% of GDP and are showing strong, continued growth. "Cyprus is a small, open market-orientated economy and has been a member of the EU since 2004. Financial services has been one of the most dynamic sectors of the economy for the past few years, exhibiting strong growth and profitability," he says.

These testimonials are by no means confined to banking and financial services. "Cyprus is strategically located between North Africa and the Middle East," says Gary Smart, vice-president of Weatherford International Ltd's Well Screen Technologies business unit. Weatherford is one of the largest global providers of innovative mechanical solutions, technology and services for the drilling and production sectors of the oil and gas industry. "This location allows for more rapid deployment of our technology to oil-producing nations such as Saudi Arabia and those in west Africa. Cyprus is an ideal location to further extend Weatherford's production capacity globally, while meeting the needs of its clients in an increasingly efficient manner."

**"CYPRUS IS A SMALL, OPEN MARKET-ORIENTATED ECONOMY. FINANCIAL SERVICES HAS BEEN ONE OF THE MOST DYNAMIC SECTORS OF THE ECONOMY FOR THE PAST FEW YEARS, EXHIBITING STRONG GROWTH AND PROFITABILITY"**

**WELL CONNECTED**

The communications industry is drawing a growing number of providers to Cyprus, taking advantage of the country's highly skilled workforce and world-class infrastructure. Due to its advanced telecommunications network and the regional and global connectivity on offer, the island is considered one of the most important telecommunications hubs in the eastern Mediterranean and the Middle East region. This is enhanced by an extensive submarine fibre-optic cable network and access to major satellite systems. MTN Group is one of the largest telecommunications providers in Cyprus. "Its strategic location linking three continents, the highly educated and skilled human resources as well as the presence in Cyprus of highly advanced technology, were only some of the key factors that convinced MTN Group to expand its operations here," says Bassel Jamaledine, CEO of MTN Cyprus.

Global technology provider NCR has been in Cyprus since the 1980s, attracted by the "excellent telecommunications infrastructure, the well-educated and skilled human resources, favourable tax rates and the prox-

imity to the Middle East and Africa markets," says George Flouros, managing director of NCR Cyprus. "Gradually, NCR has managed to expand the office in Cyprus to also cover all the African countries," he says.

Cyprus has also established itself as a leader in the global shipping industry, a sector that now contributes about 4% to the country's GDP. Many of the world's major shipping companies have set up operations in Cyprus. "Our growth and expansion over the years is attributed to the uniqueness of Cyprus," says Captain Dirk Fry, managing director of Columbia Ship Management Ltd. "This is attributable to the island's strategic position at the crossroads of three continents, its comprehensive legal framework, double tax treaties regime, communications system, banking services, infrastructure in general and last but not least its highly educated labour force." Other investors attribute it to the country's regulatory framework that is harmonised with EU requirements pertaining to *acquis communautaire*, as well as a solid framework of shipping legislation.

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