



A LEGAL GUIDE FOR CYPRUS

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PROFILE ON PARTNERS

The partners of this firm have been listed in order of seniority with a brief synopsis of their qualifications experience and areas of specialisation. All the partners have obtained their education in England and have been qualified in Cyprus as well as in England and Wales.

CHRISTODOULOS C. CHRYSANTHOU

Admitted to the Bar in England and Wales through Inner Temple and the Cyprus Bar.

He holds the title of Barrister -at- Law (1962) from the Inner Temple in London and has obtained his Degree in Laws (LL.B.) from the University of Birmingham in England. Besides his native Greek language he is a fluent English speaker. He currently presides over the Anti-Monopolies Commission; a Committee set up to implement articles 85 and 86 of the Treaty of Rome in Cyprus Law. He has further served as the Minister of Justice of Cyprus from 1988 until 1990.

His areas of concentration lie within Competition Law, Commercial Litigation, Insurance Law, and Corporate Law.

NICOS C. CHRYSANTHOU

Admitted to the Bar in England and Wales through Inner Temple and also to the Cyprus Bar.

He holds the title of Barrister -at- Law from the Inner Temple in London, the title of Master of Laws (LL.M.) in Shipping Law from the University of Southampton in England and has obtained his Degree in Laws (LL.B.) from University College of the University of London. Besides his native Greek language he is a fluent English speaker, with basic knowledge of the French and German languages. He has published articles on "Legal aspects of Bank Shipping Finance" and fiscal advantages on "Cyprus & Malta". He is a member of numerous organizations including the Cyprus Shipping Council.

His areas of concentration are Corporate Law, International Tax, Shipping Law, and Commercial Arbitration.

ELEONORA CONSTANTINO (MS)

Qualified as a Chartered Accountant at the Association of Chartered Accountants in England and Wales in 1992. She further holds a Degree in Laws (LL.B.) from the London School of Economics of the University of London. Besides her native Greek language she is a fluent English speaker and has some knowledge of the German language.

The areas of concentration are Corporate Law, Tax, Accounting and Auditing.

ALISON TIMOTHY (MS)

Admitted to the bar in England and Wales through Lincoln's Inn and also to the Cyprus Bar.

She holds the tile of Barrister -at- Law from Lincoln's Inn in London. She has also obtained her Degree in Laws (LL.B.) from University of Leicester in England. Her language skills cover in addition to English, French as well.

Her main areas of concentration cover Corporate Law, Civil Litigation, and Insurance.

CYPRUS IN BRIEF

The island's strategic location has been a major factor in shaping its history throughout the centuries and, in recent years, its development into a centre for international business. Cyprus offers to entrepreneurs, investors and shipowners a unique basket of advantages for the conduct of their affairs worldwide. The island's excellent infrastructure, English legal system, high quality of life and low cost of living, combined with its well-educated labour force, good industrial relations and generous tax incentives create an ideal business environment.

GEOGRAPHY AND POPULATION

Cyprus is situated in the eastern Mediterranean, lying at the hub of three continents and close to the busy trade routes linking Western Europe with the Arab World and the Far East. Cyprus' total area is 9,251 sq. kms and is comparable in size to Lebanon in the Middle East or Connecticut in the United States. The Island's time zone is 7 hours ahead of New York and 7 hours behind Tokyo.

The island enjoys the best type of Mediterranean climate with about 300 days of sunshine per year. The bulk of the rain falls during the period from November to March. The coldest month is January with minimum and maximum mean temperatures of 6°C and 13°C, respectively, while in August, the hottest month, the corresponding minimum and maximum mean temperatures are 21°C and 36°C. Cyprus' estimated population is 736,000 of whom 87,7 percent belong to the Greek Cypriot community and 12,3 percent to the Turkish Cypriot community. Greek and Turkish are the official languages of the Republic but English is widely spoken and understood, and is regularly used in commerce and government. Apart from the capital, Nicosia, with an estimated population of 191,000, all major cities are located on the coast. Limassol is the second largest city and the island's biggest port. Larnaca and Paphos, which are popular holiday resorts, are the third and fourth largest cities, respectively.

GOVERNMENT AND LEGAL SYSTEM

The structure of government is similar to that in other western democracies where human rights, political pluralism and private property are safeguarded.

The Head of State is the President of the Republic who is elected by universal suffrage for a five-year term of office. The Council of Ministers, which is appointed by the President, is the executive organ of the Republic. Legislative power lies with the House of Representatives whose members hold office for a period of five years. There is a multi-party system of democracy based on proportional representation.

Cyprus is a member of the United Nations and its specialized agencies, the Council of Europe and the Commonwealth. The island also has an association agreement with the European Union, which provides for the abolition of all barriers to trade and the establishment of a customs union between the two sides by 1998. Cyprus is represented through full diplomatic missions in 26 countries, 9 major

international organizations and 5 consulates general around the world.

The legal system is based on the same principles as those of the United Kingdom and all statutes regulating business matters and procedures are based essentially on English law. Most laws are translated into English. The Continental system of administrative law, according to which the legality of administrative decisions can be judicially controlled, has been introduced and applied by virtue of the constitution.

Original criminal jurisdiction rests in District Courts for minor offences and in Assize Courts for more serious crimes. All appeals are heard by the Supreme Court, which is also empowered to pronounce final judgement in all cases of constitutional and administrative law.

THE ECONOMY

Cyprus has an open free market economy. The role of government is limited to regulation and the provision of public utilities. The island is often aptly referred to as a European country in the Middle East. Per capita GNP is over US\$13,500, one of the highest in the Mediterranean. Considering other socioeconomic indicators such as the excellent housing conditions, pollution free environment and low crime rate, one may conclude that the quality of life is better than that reflected by per capita income alone. Furthermore, the cost of living is substantially lower than in most countries offering a comparable standard and quality of life. Nicosia ranks as seventh least expensive of the leading 53 international business centres surveyed in Prices and around the Globe published by the Union bank of Switzerland (UBS) in August 1994.

The economy is driven by thriving tourist and service sectors and a fast growing export-oriented industry. In terms of their contribution to GNP the three most important sectors of the economy are: trade, restaurants and hotels; finance, insurance and business services; and manufacturing. The performance of the economy has been such that it has combined high real growth with low inflation and unemployment. Moreover, the economy is characterized by a low external debt service to exports ratio and a high international reserves to imports ratio. Of the US\$4,5 billion annual gross foreign exchange earnings, 38 percent originate from tourism, 29 percent from exports, 11 percent from transportation and over 7 percent from international and shipping companies.

Trade, hotels and restaurants are the economy's most important sectors. In fact, earnings from tourism have, in general, grown faster than domestic exports. Over 70 percent of tourist arrivals originate from the European Union. Cyprus' main exports are clothing, potatoes, footwear, wine and alcoholic beverages, citrus fruit as well as chemicals and toiletries. Manufactured goods and agricultural products account for 74 and 25 percent of domestic exports, respectively. With regard to imports, intermediate inputs and consumer goods are the most important categories, each accounting for more than 33 percent of total imports. Cyprus' main trading partner is the European Union accounting for about 49 percent of imports and 28 percent of exports.

BANKING AND FINANCE

The legal tender is the Cyprus Pound. Its ultimate market maker is the Central Bank which aims to keep it stable against the Euro (CY P 1=EURO 1,7086). In addition to the Central Bank, the banking system consists of 8 onshore commercial banks, 28 international banking units, 4 specialized financial institutions and a number of leasing companies. Commercial banking arrangements and practices follow the British model.

Strong correspondent networks are maintained around the world by onshore and international banks. Most of them subscribe to SWIFT, Reuters, Telerate and other services. Thus, they have easy access to the world-banking network and are able to carry out traditional and specialized financial transactions.

Cypriots and foreigners residing on the island enjoy the benefits of a well-developed insurance industry with all types of risk accepted, mainly through agents and brokers. Currently, over 70 insurance companies and insurance captives operate on the island, many of which are incorporated abroad and represent well-known multinational insurers. The authorities regulate onshore banks and insurance companies in such a way as to safeguard the interests of depositors and the assured, and to channel investments into productive activities.

The stock exchange commenced its operations in March 1996. The Council of the Stock Exchange (CSE) is responsible for implementation of its policy. Transactions are electronically displayed and the present clearing and settlement processes have been computerized. The CSE is planning in the near future to proceed to a fully computerised online trading and settlement system. In this connection, the necessary legislation has already been approved by the House of Representatives.

The operation of the stock exchange will, in time, encourage more companies to float new issues and acquire funds for productive investments. This development will give greater momentum to an already booming stock market, stimulated further by the island's thriving economy.

HUMAN RESOURCES

Cyprus maintains public elementary and secondary school systems of a very high standard. The educational system is complemented by vocational schools whose main objective is the satisfaction of the growing demand for skilled personnel by the tourism and manufacturing sectors. In every city there exists a selection of good quality private schools, which are addressed mainly to the needs of foreign speaking pupils. These schools offer tuition in English, French, Italian, Armenian and Arabic at reasonable fees.

The island ranks among the leading countries of the world in terms of the proportion of university graduates. In 1992 the University of Cyprus, which is located in Nicosia, opened the doors to its first students. It currently has four faculties: Humanities and Social Sciences; Pure and Applied Sciences; Economics and Management; and Letters. During its short existence, the University has produced over 900 research papers in scientific and conference publications.

Cyprus has a well-trained and versatile work force. Qualified professional, technical and clerical staff with wide experience and fluency in English and other languages are available for employment at reasonable remuneration. Terms and conditions of employment are negotiated either directly between the employee and the employer or through

collective bargaining between trade unions and employers' organizations. The number of man-days lost to strikes each year (currently at about 67 per 100.000) is low by international comparisons. Added to this is the fact that Cypriots are hardworking, adaptable and honest. Interpol statistics reveal that the average number of serious crimes per year is about 628 per 100.000 population, or less than one-sixth of the average figure for the European Union.

As a result of the high educational level of the population and due to historic and economic links between Cyprus, Britain and other European countries, legal, accounting, management, computer and other services are of the highest standard. Our firm's Lawyers have all qualified in England & Wales as Barristers and have qualified in Cyprus as Advocate as well. Professional advice, therefore, is available from experts who can draw on both local and international knowledge.

TRANSPORT AND TELECOMMUNICATIONS

There is a wide network of air-routes connecting Cyprus with Europe, Africa and Asia. The island's new international airports are situated near Larnaca and Paphos, some 50 and 150 kms, respectively, from Nicosia. They handle over 600 scheduled flights per week served by 36 international airlines as well as flights operated by 55 chartered airlines. The island is rapidly becoming a major international transit station for commercial air transportation with excellent connections within the entire region.

Seaborne traffic is served by a fully renewed port system comprising the multi-purpose ports of Limassol and Larnaca, the industrial port of Vassiliko and the three specialized oil terminals of Larnaca, Dhekelia and Moni. One hundred shipping lines include Cyprus in their regular schedules to and from five continents. About 5.000 ships totaling 17 million net registered tons call at Cypriot ports each year.

Limassol and Larnaca ports are the island's main sea gateways handling two-thirds of the total volume of seaborne cargo, including the entire traffic in transit. Both ports are increasingly being used as regional warehouse and distribution centres. Supplementing one another in terms of facilities and traffic, they constitute a major container Transshipment centre in the eastern Mediterranean. Transit cargoes enjoy special treatment at the ports. Such treatment includes, in addition to minimal customs formalities, free trade facilities and a very reliable handling and delivery system, the extension of berthing priority to their carriers and special rates for their long-term storage.

Cyprus recognises the importance of telecommunications and has invested heavily in the development of this sector. As a result, the island's claim, in this respect, to be among the most developed countries in the world. Apart from conventional telecommunications services such as telephony, telex, telefax and telegraphy, the Cyprus Telecommunications Authority (CYTA) offers services such as the packet switched data network, mobile telephony (GSM and NMT900), voicemail, paging, maritime, TV transmission/reception, private leased circuits, audiotex, videoconferencing, access to the Internet and the X400 message handling system. Furthermore, the Integrated Services Digital Network (ISDN) has recently begun operating on a commercial basis.

The national network utilises state-of-the-art technology such as digital switching and transmission systems and fibre optic

cables. Services to be introduced soon include videotext, the Paneuropean paging System (ERMES), as well as broadband services (ATM-Frame Relay).

In line with its efforts to establish the island as a centre of advanced telecommunications services and a regional hub, CYTA has, in collaboration with other telecommunications administrations in the region, installed submarine fibre optic cable systems connecting the island with Greece (Aphrodite 2), Israel (CIOS), Syria (Ugarit), Lebanon (Cadmus) and Egypt. The latter constitutes part of a huge submarine fibre optic cable system, SEA-ME-WE2, stretching from Marseilles to Singapore.

Furthermore, Cyprus will be a landing point for SEA-ME-WE3, a 38.000 kms long 10Gbit/s state-of-the-art submarine fibre optic cable network linking the Pacific rim, South East Asia, the Middle East and Western Europe. This extensive fibre optic cable network is complemented by an equally impressive satellite telecommunications network. Six major and a number of smaller satellite earth stations operate via Intelsat, Eutelsat as well as via Russian satellite systems, serve the ever-increasing telecommunications traffic between Cyprus and Russia as well as other countries of the CIS.

Since 1975 non-residents have Cyprriot flag. The authorities have established more than 2.000 companies for the investment of capital locally, over 28.000, companies for the management of their overseas affairs and more than 11.000 companies for the registration of ships under the Cyprus flag. The authorities have implemented simple administrative procedures in order to expedite matters concerning foreign entrepreneurs, reflecting the importance Cyprus places in developing its potential as an international business centre.

ADMINISTRATIVE PROCEDURES

THE CENTRAL BANK'S ROLE

The Central Bank is responsible for issuing permits to non-residents wishing to acquire equity in legal entities registered in Cyprus. It is also responsible for promoting and co-ordinating most matters concerning direct investment, offshore activities and shipping business. The Central Bank co-operates closely with government departments and private parties with a view to improving facilities, incentives, requirements and procedures so that Cyprus will become an even more attractive centre for the conduct of international business affairs.

OBTAINING A PERMIT

Non-residents wishing to acquire any share or participation in a Cypriot legal entity should apply through a lawyer or an accountant practicing in Cyprus. Our firm will submit to the Central Bank an application containing the requisite information i.e. share capital, economic activities, etc. Applications are classified into one of three categories :

Direct Investment covering Cypriot legal entities which may belong partly or wholly to non-residents and which may carry on business and derive income within Cyprus

International Enterprise covering Cypriot legal entities which belong entirely to non-residents and which carry on business and derive income exclusively outside Cyprus

Shipping Business covering Cypriot legal entities which may belong entirely to non-residents and which limit their objects to the ownership, bareboat chartering and operation of ships in international transport.

Permits concerning international enterprises and shipping companies are normally issued by the Central Bank within a few days, depending on the availability of the requisite information or assurances. This speedy response is due to the consensus that international enterprises and shipping companies make a positive net contribution to the economy without competing with local firms.

Applications concerning direct investments are considered by the Central Bank in consultation with appropriate government departments. Normally, the administrative procedure is completed within 30 days and the applicant receives an official reply. However, in cases where the procedure cannot be completed in that period the applicant is notified accordingly.

Upon receipt of the necessary permit, the non-residents' shares or participation must be registered in their names or in the names of their nominees at the Department of the Registrar of Companies under the Companies or Partnerships Laws, as the case may be. These laws are based on corresponding United Kingdom legislation. Matters relating to the registration of ships are handled by the department of Merchant Shipping as explained in chapter 5 of this booklet.

Legal procedures pertaining to the registration, re-organization and liquidation of business entities must be completed through advocates practicing on the island. At the same time, business entities with non-resident participation are required to prepare and submit to the Central Bank and the Department of Inland Revenue annual financial statements audited by local practicing accountants.

Applications by foreigners wishing to live or work in Cyprus are handled by the Ministry of Interior and the Ministry of Labour. In the case of international enterprises, arrangements have been made whereby the Ministry of Interior may issue and renew the temporary residence-employment permits of their expatriate executives upon the recommendation of the Central Bank, while it retains ultimate authority over all such permits.

EXCHANGE CONTROL

The Exchange Control Law does not distinguish between Cypriot nationals and aliens but between residents and non-residents. The residential status of physical persons is normally determined by reference to the place where they live and work and that of legal entities by reference to the place where they are incorporated or activated. Only residents are subject to some exchange control restrictions on capital transfers. All current payments are transferable abroad up to any amount without restriction. Most of these payments are handled by commercial banks in accordance with powers delegated to them by the Central Bank whilst capital transfers need to be referred to the Central Bank for approval. Thus, non-residents may hold and manage assets and liabilities in any foreign currency and in any foreign country, including freely convertible and transferable balances with banks on the island.

Cypriot legal entities, which belong partly or wholly to non-residents and which carry on business or derive income

within the island, are considered as resident for exchange control purposes. On the other hand, Cypriot legal entities which belong exclusively to non-residents and which carry on business and derive income exclusively outside the island, are exempt from exchange controls. All persons who are not permanent residents of Cyprus are also exempt from exchange controls.

DIRECT INVESTMENT

Attracting foreign capital has always been among the primary objectives of the country's development policy as it contributes to, among other things, the introduction of high technology and increased export prospects. Cyprus offers numerous advantages and incentives to the foreign investor. The constitution guarantees the right of private property while it does not discriminate between Cypriots and non-Cypriots. Nationalization has never been part of government policy, nor is it contemplated in the future. Furthermore, Cyprus is a signatory to the Convention for the Settlement of Disputes between States and Nationals of Other States and to the Multilateral Investment Guarantee Agency Agreement.

INVESTMENT POLICY

In its efforts to liberalize the economy and attract foreign capital, the government has recently relaxed the rules and regulations applicable to inward investment. Under the new regime, administrative procedures have become simpler and, in most cases, foreign participation of up to 100 percent is permitted. Only projects, which may create environmental problems or may appear detrimental to the country's economy or national security, are rejected.

The wholesale and retail trade sector is now open to non-resident investors. Applications are considered by the Central Bank alone if the foreign participation is up to 49 percent. If a higher percentage is required or if the investment exceeds CY£750.000 (~US\$1,5 million), applications are considered jointly by the Central Bank and the Ministry of Commerce, Industry and Tourism.

In the case of industrial projects, the Central Bank handles applications if foreign participation does not exceed 49 percent. If a higher percentage is required or if the investment exceeds CY£750.000, applications are considered jointly by the Central Bank and the Ministry of Commerce, Industry and Tourism.

As far as the services sector is concerned, up to 100 percent foreign ownership is permitted and the Central Bank has the sole responsibility for approving applications. Over 70 types of services have been divided into two categories so that, depending on the service involved, the minimum capital of each company to be formed will be either CY£50.000 or CY£100.000.

Investors in the tourist sector are subject to the tourist policy applicable at the time. The current policy, which was introduced in 1995, provides for up to 49 percent maximum foreign participation in hotels, tourist villages, villas, etc. However, up to 100 percent may be allowed for projects, which enrich tourism such as golf courses, theme parks, etc.

For a small number of business activities e.g. establishment of new banks, insurance and financial services companies, publication of newspapers and magazines and establishment of new airline companies, applications are considered on a case-by-case basis. The extent of allowable foreign participation is decided on the merits of each individual case. The list of saturated activities, where no foreign participation is allowed, has been substantially reduced and includes land development, tertiary education and public utility services such as electricity production, postal services, etc.

In the case of portfolio investment, important liberalisations came into effect in June 1996. Specifically, for public companies outside the banking sector, up to 49 percent of the issued capital may be owned by foreign non-residents. There are no restrictions for Cypriot non-residents (physical persons only). The maximum allowable individual shareholding by a non-resident individual or corporation is restricted to 5 percent of a company's issued capital. For public companies in the banking sector, up to 15 percent of the issued capital may be owned by non-residents. Of this, 6 percent may be owned by foreign non-residents and the other 9 percent by Cypriot non-residents. The maximum allowable individual shareholding by a non-resident individual or corporation is restricted to 0,5 percent of a company's issued capital.

All the percentages mentioned above may be exceeded in worthy cases.

FINANCING ARRANGEMENTS

The permit issued by the Central Bank to non-resident investors specifies the allowable activities of the legal entity concerned. At the same time, it imposes conditions that must be observed with regard to financing arrangements. The non-resident investor's equity capital must emanate from external sources and, together with local capital, it must be commensurate with the total cost of the project. Furthermore, any loan financing must be raised from local and foreign sources in proportion to the equity participation by residents and non-residents. However, this requirement is waived if the non-resident participation does not exceed 24 percent of the share capital.

The terms under which foreign loans are received must be approved in advance by the Central Bank. One of the basic requirements is that interest and other costs must be at market rates. Royalties and other payments for the use of patents, know-how, brand names, etc, also need to be approved in advance. This procedure is usually a formality.

Permission for the repatriation of capital (including capital appreciation), profits, dividends and interest arising from a direct investment in Cyprus is readily granted. There is no prescribed maximum percentage of profits that may be repatriated each year or minimum period before which the non-resident may dispose of his investment.

Transfers of equity are permitted on the basis of share valuations and bank references in the case of new non-resident owners. The savings of expatriate employees may be transferred abroad or credited to a freely convertible or foreign currency account in Cyprus.

FISCAL AND OTHER INCENTIVES

The general advantages offered by Cyprus are enhanced by the following tax incentives:

1. Low corporation tax. Net profits are taxed at the rate of only 20 percent for chargeable income up to CY£40.000

(~ US\$80,000) and 25 percent for chargeable income in excess of this amount.

2. Low income tax. Expatriates employed in the Industrial Free Zone pay half the rates applicable to local's i.e. 0-20 percent.
3. remittable tax on dividends. Any withholding tax paid on dividends by resident companies to companies abroad is remittable on application to the Ministry of Finance. If dividends are paid to shareholders (physical persons) then the tax withheld is credited against their own tax liability.
4. Generous investment allowances for machinery and equipment used in the manufacturing sector and considerable wear and tear allowances covering
5. Both machinery and certain, categories of hotel buildings.
6. Book losses may be carried forward for up to 5 years from the year in which they occur.
7. Zero customs and excise charges for operations in the Industrial Free Zone.
8. Double tax treaties with 26 countries.

Foreign investors can also take advantage of other incentives. These include industry-training schemes; export promotion services; bonded warehouses; and industrial plots at very low rentals.

THE EUROPEAN UNION

The island has had an association agreement with the European Union (EU) since 1 June 1973, which provides for the abolition of all barriers to trade and the establishment of a customs union between the two sides by 1998. The customs union between Cyprus and the EU will undoubtedly open new prospects for the production and distribution of goods and services by enterprises based on the island. As mentioned in chapter 1, the EU is already Cyprus' main trading partner.

A formal application for full membership of the EU was made in 1990 and accession negotiations will begin six months after the end of the current EU intergovernmental conference.

Cyprus offers unique opportunities to businessmen from the EU wishing to service the Middle East and to businessmen from third countries wishing to service the EU. Investors from the EU may have access to the EC International Investment Partners Scheme (ECIP) which offers support through co-investment in joint ventures between firms in the EU and in Latin America, Asia and the Mediterranean region. Financial assistance is available at the various stages of the investment cycle and applications are handled by the Cyprus Development Bank. 1

INTERNATIONAL ENTERPRISES

The term international enterprise refers to any legal entity whose beneficial ownership and business activities lie outside the limits of its registration. Since the introduction of the first incentives. In 1975, more than 28,000 permits have been issued by the Central bank for the registration of such entities. Cyprus' entrepreneurial environment and supporting facilities compare favourably with those of the best-

established centres in the world. The island is considered to be a primary offshore and, international business centre among approximately 50 countries offering facilities for these purposes.

REGULATORY FRAMEWORK

The Central Bank, through its permit to non-resident investors, imposes certain conditions with regard to beneficial ownership, business activities, financial arrangements and reporting procedures.

International enterprises may be run from Cyprus but none of their objects may be carried out within the island. Such enterprises can only derive income from activities abroad. They are not allowed to deliver any goods or services in Cyprus, either to residents or non-residents, or to act as middlemen for foreign products or as exporters of Cypriot products. However, international enterprises may:

1. Contact each other and deal among themselves, provided the object of business is confined outside the island
2. Pay each other from their foreign currency accounts, provided the goods or services involved are delivered outside the island.

Those international enterprises with common ownership of 50 percent or more may share a Fully-Fledged office and offer administrative services to each other in Cyprus.

If confidentiality is desired, it is possible to use nominee or trustee shareholders since only their names will appear in the records kept by the Registrar of Companies. Central Bank employees are bound by oath to secrecy thus the names of the non-resident beneficial owners are kept strictly confidential, as is information on individual international enterprises. Only aggregate data are published from time to time in order to enable the government and the public to assess progress in this sector.

FISCAL INCENTIVES

The major fiscal incentives offered to international enterprises are as follows:

1. International companies as well as international branches managed and controlled from Cyprus are taxed at only 4,25 percent of their profits
2. International branches which are managed and controlled from abroad and international partnerships are totally exempt from corporation or income tax
3. The beneficial owners of international companies, branches and partnership are not liable to additional tax on dividends or profits over and above the amount paid or payable by the respective legal entities
4. Expatriate employees of international enterprises living and working in Cyprus are taxed at half the rates applicable to locals i.e. from 0 to 20 percent
5. Expatriate employees of international enterprises living and working outside the island are exempt from income tax if they get paid through any bank in Cyprus or are taxed at one tenth of the rates applicable to locals if they get paid directly abroad
6. No capital gains tax is payable on the sale or transfer of shares in an international company

No estate duty is payable on the inheritance of shares in an international company.

Under the Customs and Excise Law, international enterprises and their expatriate employees may acquire duty free:

- Office equipment such as computers, fax machines, photocopiers, etc.
- Household equipment such as video recorders, hi-fi systems, washing machines, dish washers, refrigerators, etc.
- Motor cars including sports cars, station wagons, as well as mini-busses with a seating capacity of up to nine persons.

Those eligible for relief from duty are:

1. International enterprises operating continuously from their fully fledged and fully staffed offices which are open during normal working hours and separate from private residences
2. Full-time expatriate employees of the above enterprises who live and work in Cyprus during most of the year and whose remuneration exceeds CY£12.000 (~US\$24.000) per annum.

An eligible expatriate may acquire a second duty free car for the use of his family if his salary, as declared to the Department of Inland Revenue, is more than CY£20.000 per annum.

Transactions effected by international enterprises are outside the scope of Value Added Tax. As a result, international enterprises do not need to register For VAT purposes and thus are not entitled to claim a refund of the VAT paid by them on their purchases. However, all duty free importation by international enterprises are exempt from VAT. In addition, telecommunications services offered to international enterprises which have fully fledged and fully staffed offices in Cyprus may be exempted from VAT with the approval of the Central Bank.

International enterprises are exempt from stamp duty on all documents relating to their business activities outside Cyprus and they and their expatriate employees are also exempt from the Special Contribution to the Defense Fund.

Cyprus has concluded an impressive number of treaties for the avoidance of double taxation. There are currently 26 in force. The existence of these treaties, combined with the low tax paid by international enterprises, offer significant possibilities for international tax planning through the island. In contrast to tax havens, Cyprus is a tax incentive country, which offers benefits aimed at attracting non-residents who wish to conduct their business affairs from the island.

TRADE AND SERVICES

International enterprises registered in Cyprus are given a realistic choice between operating from the offices of lawyers or accountants or from their own management headquarters. About 1.100 international enterprises, including many well-known multinationals, maintain fully-fledged administrative offices in the island for the purpose of conducting their regional or worldwide affairs. These enterprises employ over 3.000 expatriates and 2.000 locals. The expatriates are accompanied by about 6.000 dependants. The most important international activities, as measured by employment of staff in the island, are: Trade, Marketing and Distribution; Shipmanagement and Maritime Services; Business and Engineering Consultancy; Commercial and Merchant Banking; Management Control and Administration; News Gathering and Publishing; Life, General and Captive Insurance; and Third-Party Financial Services.

Commerce is by far the most important activity carried out from Cyprus. Transit trade via the island's seaports is

undertaken by international enterprises on a large scale. They may store, maintain, break bulk or repackage their own transit "goods in general or privately rented bonded warehouses, provided the handling does not result in any change in the goods' customs tariff classification.

International enterprises are allowed to:

- Organize training seminars or demonstration courses in Cyprus for their foreign agents or clients
- Establish permanent showrooms in Cyprus for exhibiting foreign products they represent, provided all deals are on a wholesale basis and delivery takes place outside the island.

Available statistics confirm that Shipmanagement and maritime services is the second most important activity conducted by international enterprises from the island.

Well-defined and imaginative policies have proved attractive to the maritime community worldwide.

The rendering of professional services is the third most important activity. This category includes activities such as accounting, advertising, architecture, software production, marketing surveys, oil exploration, personnel recruitment, water treatment, etc.

Cyprus has become one of the world's primary centres for information gathering and distribution. Most international news agencies and numerous publishing firms cover the whole of the Middle East and North Africa from the island. Among the factors that have contributed to this development are the guaranteed freedom of expression; the pluralistic political and social environment state-of the art telecommunications; and the extensive network of sea and air connections. In addition to their editorial work, publishing firms may have their newspapers, magazines or books printed in Cyprus for distribution abroad, provided they obtain a permit under the Press Law. Such a permit may be secured quite easily at the time of the application to the Central Bank for the international enterprise's establishment.

BANKING AND FINANCIAL SERVICES

International banking licenses are granted by the Controller of Banks who is the Governor of the Central Bank. As a rule, only subsidiaries or branches of banks enjoying a good reputation internationally, established in countries where there is adequate banking supervision and where lender of last resort facilities are available, are eligible for an international banking license. All international banking licenses are subject to certain conditions. These conditions may be expanded or modified depending on a number of factors, including the International Banking Unit's (IBU's) legal form (i.e. subsidiary or branch) and the parent bank's financial standing and international reputation.

IBUs, which must operate as fully fledged and fully staffed units and not merely as 'brass plate' entities, can transact business with non-residents of Cyprus and in currencies other than the Cyprus Pound. IBUs are permitted to grant loans or guarantees in foreign currencies to residents provided that the resident parties involved obtain a relevant exchange control permit from the Central Bank. The net outcome earned from transactions with residents is subject to the full rate of corporation tax, but the Minister of Finance has the power to exempt an IBU from this tax liability if

satisfied that a specific transaction contributes substantially towards the economic development of Cyprus.

IBUs, although exempt from most monetary policy and credit regulatory measures applicable to onshore banks, are subject to supervision and inspection by the Central Bank. IBUs are expected to satisfy the Central Bank of their ability to meet their obligations as they fall due and of their adherence to sound banking practices. Twenty-eight IBUs are currently operating from Cyprus. Three of these are subsidiaries, while the other 25 are branches of foreign banks.

International enterprises may not render financial services to parties other than their shareholders or members of their group of companies without the prior authorization of the Central Bank.

The term 'financial services' means: dealing in investments, managing investments, providing investment advice or establishing and operating collective investment schemes. In this context, the term 'investments' refers to shares, debentures, government and public securities, warrants, certificates representing securities, units in collective investment schemes, options, fixtures and contracts for differences.

Only branches, subsidiaries or associate companies of overseas financial services companies enjoying a good reputation internationally and established in countries where there is adequate financial supervision, may be considered as eligible for the rendering of international financial services from Cyprus.

Successful applicants for the establishment of international financial services companies, are issued with an Exchange Control Law permit which incorporates a number of special conditions in addition to those applicable to other international enterprises.

INSURANCE BUSINESS

Any company formed and registered under the Companies Law with a view to engaging in insurance business in any part of the world other than Cyprus is treated as an insurance company operating within the Republic. All insurance companies are required to apply to the Superintendent of Insurance for a license, which is granted provided the company satisfies the requirements of the law. There are currently 31 international insurance companies registered in Cyprus. Thirteen of these are life or general and 18 are captive.

The Council of Ministers may exempt, through the Minister of Finance, any insurance company registered in Cyprus from the application of the Insurance Companies Law or any of its provisions, if satisfied that these are inappropriate and unduly onerous. Thus, the incorporation of international captive insurance companies, which restrict their operations to insuring the risk of the parent, holding or associated group of companies to which they belong, may be realized under more favourable conditions.

International enterprises operating from Cyprus also include a number of agents and brokers as well as a number of firms which provide a wide range of services to insurance companies without themselves engaging in insurance business for which an insurance license would be required.

SHIPPING BUSINESS

The island has proved to be an ideal centre for the establishment of legal entities by foreign ship owners and other professionals <' for the conduct of maritime activities and for the rendering, of shipping services worldwide. In the early 1980's Cyprus ranked thirty-second on the list of leading maritime nations. Today it ranks fifth with 2.733 ships totaling 26,2 million gross tonnage. The island's maritime policy aims to develop an integrated shipping infrastructure through the granting of appropriate incentives.

REGISTRATION PROCEDURES

Maritime activities are governed by the Merchant Shipping Laws, which are largely based on corresponding British legislation. The island has also ratified the international conventions on maritime safety, prevention of pollution of the sea and training and certification of seafarers. Cyprus is a member of the Council of the International Maritime Organization, which reflects the importance of the island in international shipping.

A non-resident may register a ship under the Cypriot flag by forming a company with the permission of the Central Bank and by transferring the ownership of the ship to the Cypriot company. The procedure for registering a shipping company may generally be completed in a matter of days through an appropriate professional. Shipping companies owned by non-residents and deriving their income from sources outside Cyprus are exempt from exchange controls.

The Department of Merchant Shipping of the Ministry of Communications and Works is the appropriate authority for the registration of ships. Its responsibilities include safety administration, training and certification, international relations and shipping legislation. Government policy provides for the registration of ships, which do not exceed 17 years of age. Vessels of any type and tonnage between 18 and 23 years of age may also be registered subject to certain conditions.

The provisional registration. of a ship under the Cypriot flag may be effected in any country where Cyprus has a diplomatic mission or a consular post. The permanent registration of a provisionally registered vessel must be completed within nine months, including a three-month extension. For this purpose the vessel must be surveyed and measured by any one of the classification societies recognized by the Cypriot government. Cyprus recognizes all the major classification societies.

In accordance with the law on parallel registration, ships bareboat chartered to Cypriot companies may be registered under the flag of the Republic for the period of the charter provided that the legislation of the foreign flag state permits it and the owners and the mortgagees give their consent. Cypriot registered vessels may be registered in parallel in a foreign registry under the same conditions, which must be satisfied for the parallel registration of foreign ships in Cyprus.

All mortgages on Cypriot ships, except those of vessels registered in parallel, have to be registered in the Cyprus Register of Ships. Registered mortgagees are fully protected

and no transaction affecting the registry status of a ship is effected without the written consent of the mortgagees. Furthermore, no certificate of deletion from the Cyprus Register is issued unless all registered encumbrances have been discharged.

FISCAL INCENTIVES

The fees payable by Cypriot registered vessels are on the low side and may be favourably compared with those of other flags. Ship owners are initially attracted to the Cyprus Register by the inexpensive registration and annual fees and the excellent services offered. Other important incentives are:

1. No tax on profits from the operation of a Cypriot registered vessel or on dividends received from a ship owning company
2. No capital gains tax on the sale or transfer of a Cypriot registered vessel or the shares of a ship owning company
3. No estate duty on the inheritance of shares in a ship owning company
4. No income tax on the emoluments of officers and crew
5. No stamp duty on ship mortgages deeds or other security documents.

CREWING REQUIREMENTS

The Merchant Shipping Laws contain provisions concerning the composition of the crew and other matters related to seamen employed on Cypriot registered vessels such as apprenticeship, engagement and discharge of master and seamen, wages, accommodation, relief, repatriation, etc. Although there are provisions in the law that 15 percent of the crew must be Cypriot, due to the limited availability of local seamen officers and crew may be of any nationality whose certificates of competency are recognized by the Cypriot government.

In order to facilitate the safe manning of ships flying its flag, Cyprus has concluded a number of bilateral agreements containing provisions for the employment of properly qualified seamen from labour-supplying countries. The officers and seamen must be holders of Certificates of Competency issued by the government of Cyprus or one of the S 1 countries whose certificates have so far been recognized by the government.

The aim of these agreements is to promote friendly relations, explore areas of cooperation and facilitate seaborne trade as well as employment of seamen. Under these agreements each contracting party renders to the vessels, crews and passengers of the other contracting party the same treatment as that rendered to the most favoured nation. The agreements set minimum standards, wages and other terms of employment protecting seafarers from possible exploitation. They also include provisions to protect ship owners against unwarranted stoppages and delays of their ships in port as well as regulating taxation of income and profits derived from operations in international shipping.

Agreements with Bulgaria, China, Philippines, Poland, Romania, Russia, Sri Lanka and Syria are currently in force. The agreement with India has recently been signed and will enter into force soon, while those with Algeria, Egypt and Iran have been initialed and their signatures are pending. The agreements with Algeria, Egypt, India, Iran, Philippines, Poland, Russia and Sri Lanka contain provisions for the

employment of qualified seamen from these countries on Cypriot ships.

OTHER ACTIVITIES AND SERVICES

Other legal entities owned by nonresidents and engaged in shipping related activities or services from Cyprus, such as ship management, chartering, brokerage, crewing, underwriting, average adjusting, etc, operate as international enterprises thus enjoying the incentives and advantages of this special category. A significant number of Shipmanagement companies of German, Greek, Russian and Scandinavian ownership have established fully fledged offices in Cyprus from where they manage a considerable number of vessels under the Cypriot and foreign flags. One of these companies has, with the active support and assistance of the authorities, established a Marine Training School for the purpose of offering training to local as well as foreign seamen.

Many shipping related services are available locally from resident-owned firms. These include shipping, travel, clearing and forwarding agents, ship chandlers and a variety of other enterprises related to shipping, including butlkering and a large number of public warehouses.

There are also representatives of all the main ship classification societies; ship surveyors and consultants, representatives of all P & I clubs, marine insurers, small ship repair units and salvage operators.

A UNIQUE CHOICE

Cyprus' maritime policy aims to provide attractive and competitive incentives, a continually upgraded infrastructure and appropriate legislation which seeks to respond to the needs of the international maritime community. The significant presence of ship owners, shipmanagers and related professional; from all around the globe is a testament to the success of Cyprus as a maritime centre and recognition of the island's unique package of advantages.