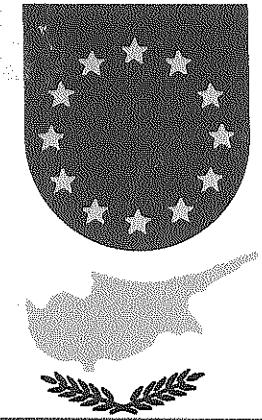


The External Trade of Cyprus and the European Union



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KIBRISTA SOSYALIST
GERÇEK LONDRA BÜROSU



SOCIALIST TRUTH IN CYPRUS

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NICOSIA - CYPRUS 1997

Table of Contents

1. The Role of External Trade in the overall Orientation of the Cypriot Economy	5
2. The External Trade of Cyprus and its Association Agreement with the European Community	8
3. The Significance of the EC Customs Union Agreement for Cyprus' External Trade	12
4. The Present Stand of trade relations between Cyprus and the European Union	14
5. The External Trade of Cyprus and the prospect of its entry to the European Union	16

1. The Role of External Trade in the overall Orientation of the Cypriot Economy

One distinguishing characteristic of the Cyprus economy is its heavy dependence on external trade. This dependence can be attributed to the restrictive dimensions of the domestic market and to the open character of economic activity in Cyprus.

These two aspects have played a decisive role in every sector of the economy - agriculture, industry and services alike - and have influenced the overall orientation of the Cyprus economy and its relations with its trade partners.

This is clearly reflected in the efforts of the government to link the Cyprus economy to the European Community. These efforts were closely connected with British moves to join the EEC and developed partially as a direct consequence of them.

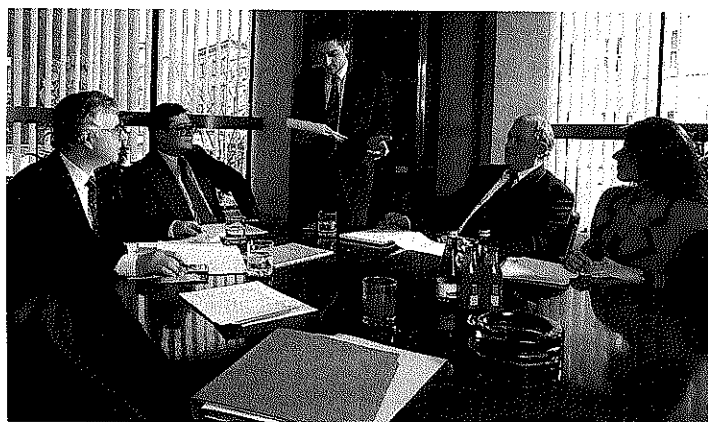
When the British government submitted its first application to join the EEC in 1962, Cyprus applied for an association agreement with the Community. The justification for such parallel action was that Cyprus was a member of the British Commonwealth - and anticipated that British EEC membership would upset the Cyprus export trade, unless corrective actions were taken.

Following the initial rejection by the Community, Britain submitted a new entry application in August 1970. Likewise, Cyprus also proceeded to a second request soon after.

The close ties of Cypriot productive activity and exports to the needs of the British market may be traced back to the time Cyprus was a British colony. Following independence in 1960, the Cypriot economy continued to function within the frame of the British Commonwealth, enjoying preferential Commonwealth status. It should suffice to say that Britain absorbed 60% of Cypriot agricultural exports in 1970.

Britain's entry into the EEC would require it to adapt to the Common Agricultural Policy of the Community. In turn, this would require compliance with the Common External Tariffs, a development within the frame of the preferential status accorded to Cypriot agricultural exports to Britain. On the other hand, Common Agricultural Policy provisions would facilitate British imports from France and at the expense of Cyprus.

An additional reason in favour of closer relations with the EEC was mostly due to the decision to redefine goals and policies with regard to industry and production. Already by the early seventies, it had become apparent that existing development strategy, namely, the substitution of imports by locally produced items had no future. The restricted size of the domestic



market in Cyprus was a serious drawback for such a strategy. Deficiencies in know-how further compounded difficulties. Besides, the seventies, on the whole, witnessed a general abandonment of development schemes based on substituting imports with locally produced items. The new trend was in the direction of promoting exports by every available means.

CYPRIOI DOMESTIC EXPORTS TO MAJOR MARKETS

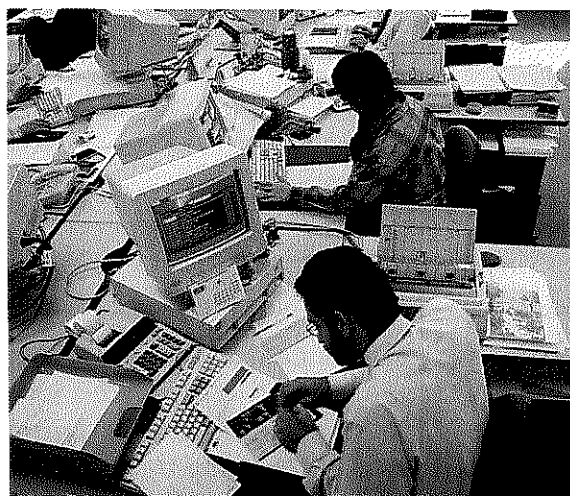
	1973	1975	1978	1988	1995
Exports (million Pounds)	57,2	52,4	122,0	301,2	238,7
Exports according to economic sector (%):					
- Agricultural	51,6	35,6	26,2	18,2	28,3
- Industrial	29,8	49,4	67,3	80,7	67,7
- Metal ores	13,6	15,0	6,2	1,0	1,0
- Other	0,0	0,0	0,3	0,1	3,0
Exports by country of destination:					
- EEC (including Britain)	62,2	42,2	37,4	47,4	140,9
- Arab countries	7,2	27,9	45,3	34,4	41,8
- Eastern Europe (1)	17,1	12,5	7,1	5,0	28,1
- Other	13,5	14,4	10,2	13,2	27,9
Significant items exported: (million Pounds)					
- Garments	2,0	3,5	16,3	74,6	44,3
- Potatoes	5,9	7,7	10,8	16,2	43,1
- Shoes	0,6	1,8	7,1	16,5	4,9
- Citrus crops	16,2	5,2	6,7	13,8	16,8
- Wines	4,5	3,8	5,8	4,5	9,1

(Source: Economic and Social Indices)

(1) Non - EU European Countries - 1995 figures

2. The External Trade of Cyprus and its Association Agreement with the EU

The aim of the Association Agreement between the EEC and Cyprus signed on 19 December 1972, was the establishment of a Customs Union between the signatory parties, following completion of two transitional stages. The first stage covered the period until 30 June 1977, and established mutual reductions in customs duties for a number of industrial and agricultural products. The second stage, to be specified through negotiations prior to the expiration of the first stage, provided measures which led to the abolition of the remaining duties and to a customs union. The schedule for these developments, however, became impossible to meet on account of the interposition of the Turkish military invasion of Cyprus in 1974. As a result, the Customs Union Agreement was established with considerable delay in 1987.



A profile analysis of Cypriot external trade since the beginning of the Association Agreement with the EEC is provided in the following tables:

TABLE I
CYPRUS IMPORTS FROM THE EC AND OTHER COUNTRIES

A. Imports by major Country Group/in values, US Dollars, million	1973 (\$ mln)	1978 (\$ mln)	1988 (\$ mln)	1992 (\$ mln)	1995 (\$ mln)
1. EC	249	385	1.014	1.748	1.905
2. EFTA	--	--	117	177	--
3. Eastern Trading Area/ Other Europe	29	53	133	246	293
4. Arab Countries	26	61	89	120	107
5. Other Countries	146	258	507	1.017	1.382
TOTAL	450	757	1.860	3.308	3.687
B. Imports by major Country Group/as a percentage to total import value	1973 (%)	1978 (%)	1988 (%)	1992 (%)	1995 (%)
1. EC	55,2	50,8	54,2	52,8	51,7
2. EFTA	--	--	6,3	5,4	--
3. Eastern Trading Area/ Other Europe	6,5	7,0	7,1	7,4	8,0
4. Arab Countries	5,8	8,1	4,8	3,6	2,9
5. Other Countries	32,5	34,1	27,3	30,7	37,5
TOTAL	100%	100%	100%	100%	100%

TABLE II
CYPRUS DOMESTIC EXPORTS TO THE EC AND OTHER COUNTRIES

A.Domestic Exports to Country Groups/in values, US Dollars, million	1973 (\$ mln)	1978 (\$ mln)	1988 (\$ mln)	1992 (\$ mln)	1995 (\$ mln)
1. EC	91	104	240	275	311
2. EFTA	--	--	18	18	--
3. Eastern Trading Area/ Other Europe	25	20	25	23	62
4. Arab Countries	11	126	174	116	92
5. Other Countries	20	28	41	42	47
TOTAL	147	278	498	474	512
B. Domestic Exports by major sector/in values, US Dollar million	1973 (%)	1978 (%)	1988 (%)	1992 (%)	1995 (%)
1. Agriculture	75	73	91	82	149
2. Industrial	43	187	401	390	362
3. Mineral	27	17	5	1	1
4. Other	1	1	--	1	--
TOTAL	146	278	497	474	512
C. Significant items exported/in values, US Dollar million	1973 (%)	1978 (%)	1988 (%)	1992 (%)	1995 (%)
- Garments	5,7	43,7	160	143,6	97,8
- Potatoes	16,9	28,9	34,7	25,3	95,1
- Shoes	1,7	19,0	35,4	21,5	10,8
- Citrus crops	46,4	17,9	29,6	35,7	37,1
- Wines	12,9	15,5	9,7	16,2	20,1

The data displayed in the above tables leads to a number of basic conclusions.

It can be ascertained with certainty that, by the end of the eighties Cypriot exports and imports were rigorously linked with the European Community. Moreover, trade with the EEC showed a tendency to grow.

The mutual concessions made through the Association Agreement contributed to an impressive increase in trade. Nonetheless, the growth of Cypriot imports from the EEC appears to have been greater than exports to the EEC. Apparently, the difference must be attributed to the increase in domestic demand for imported products as a result of improved incomes, as well as to the development of the economy on the whole during that period.

The export of Cypriot industrial products to the EEC did not follow strictly the gradual reductions of duties on the part of the Community. The growth in exports was due rather to the variety of items marketed and to the rules of origin which the Community applied to Cypriot industrial products in that period.

In the domain of agricultural products, Cypriot exports did not display a noteworthy change, as they had to confront EEC Common Agricultural Policy mechanisms. Simultaneously, Cypriot exports were deprived of their preferential treatment in British markets after 1978.

It would be interesting to examine the relations of Cypriot trade with the Middle East during the same period. The Middle East market showed signs of exhaustion by the mid-eighties. This is attributed to the rise of political instability in the region and to the wane of buying power on account of reduced crude oil prices.

3. The Significance of the EC Customs

Agreement for Cyprus' External Trade

The Customs Union Agreement was signed in October 1987. According to this agreement, customs union between Cyprus and the EEC will take place after two stages - lasting ten and four or five years, respectively.

On the whole, the agreement provides protection for Cypriot domestic production and safeguards Cypriot exports.

The transition period provides ample time for necessary adjustments to new competitive conditions. Moreover, the agreement affects about 82% of total trade between Cyprus and the Community, excluding a number of sensitive products whose inclusion would have proved detrimental to domestic production.

In the agricultural sector, the agreement incorporates almost all products with export potential, while additional products may also be introduced at a further stage. The concessions for the first stage permit duty-free export of all potential citrus production and potatoes (92% of the potato crop) from Cyprus to the EEC. Likewise, prospects for bottle wines and a number of other agricultural products (bulk wine, must, avocado, kiwi and some vegetable varieties) are quite favourable. The agreement, in sum, covers approximately 85% of all unprocessed agricultural exports from Cyprus to the Community.

On the other hand, the abolition of trade restrictions on the part of Cyprus is not expected to cause a significant increase in competition, since Cyprus produces the items to be affected at quite competitive prices. Moreover, the small size of Cyprus' domestic market will limit the possibility of significant foreign imports.

As far as industrial products are concerned, the Customs Union Agreement provides for unobstructed - free from any duty or quota limitations - exports to the EEC. Meanwhile, imminent competition from industrial im-

ports originating from the EEC. will be kept at bay through the gradual phasing out of existing protective regulations. In this manner, it is estimated that approximately 50% of domestic industrial production will not face serious competition from imports, while 30% of domestic items will remain under effective protection during the transition period.



4. The Present Stand of Trade Relations between Cyprus and the European Union

Cyprus industrial exports enjoy duty free access in the markets of the EU, subject to compliance with the rules of origin. In 1989 the EU granted to Cyprus derogations from the rules of origin for limited quantities of shirts, girls and ladies garments of man made fibres. Regarding agricultural exports the EU abolished in 1992 residual duties on products (43) covered by reciprocal concessions, in the context of its New Mediterranean Policy. For certain products the duty suspension applies within quantitative limits and/or for specific periods.

With regard to industrial products originating in the EU, Cyprus reduced duties by 81% (for certain sensitive products 75%) as of 1 January 1996. Furthermore, all quantitative restrictions were abolished as from the beginning of 1996, as a result of Cyprus commitments to the World Trade Organisation.

On 4 July 1990 the government of the Republic of Cyprus submitted its application for membership to the European Communities. The Council of Ministers examined the application and asked the Commission to give its Opinion. The Commission issued its Opinion on Cyprus' application on 30 June 1993.

The Opinion recognized the European identity and character of Cyprus and its vocation to belong to the Community. It also confirmed that Cyprus satisfies the criteria for membership and is suitable to become a member of the Community.

The Council of Ministers discussed and endorsed the Opinion at its meeting on 4 October 1993.

The substantive discussions between the government of Cyprus and the Commission began in November 1993 and were completed in February 1995. For the purpose of these discussions the government of Cyprus es-

tablished twenty-two Working Groups, each one of them dealing with a different chapter of the *acquis communautaire*. The discussions were constructive and fruitful and helped the Cypriot officials to familiarize themselves with the *acquis communautaire* and to identify the areas in which the Cypriot legislation needs to be harmonized with the *acquis*.

In June 1994 the European Council at Corfu stated in its conclusions that an essential stage in the preparation process could be regarded as completed. It also decided that the next phase of enlargement of the Union will include Cyprus.

On 19 December 1994 the European Union Summit in Essen confirmed that the next phase of enlargement of the Union will include Cyprus and Malta.

The EU General Affairs Council re-examined Cyprus' application for membership of the European Union on 6 March 1995 and taking into consideration the latest developments including the conclusions of the Observer's report in January 1995:

- reaffirmed the suitability of Cyprus for accession to the European Union and confirmed the will of the European Union to incorporate Cyprus in the next stage of its enlargement,
- decided that accession negotiations with Cyprus will start six months after the conclusion of the Intergovernmental Conference of 1996.

The government of Cyprus considers the decision of 6 March 1995 extremely significant, since it constitutes a firm commitment on the part of the EU that accession negotiations will begin at a specific time, and that Cyprus will become a member of the EU. The EU decision for commencement of accession negotiations with Cyprus 6 months after the conclusion of the Intergovernmental Conference, taking into consideration its results, was reconfirmed at the European Councils in Cannes (26-27 June 1995), Madrid (15-16 December 1995) and Florence (21-22 June 1996).

5. The External Trade of Cyprus and the prospect of its entry to the European Union

Successful implementation of all provisions of the Customs Union Agreement will lead to an unrestricted flow of products between the two parties. Pertinent data so far show that exports to the EU have been increasing. This trend is expected to continue, even though pressure from imports is also expected to mount. The fact that the full range of Cypriot agricultural production is not included in the agreement may well constrain such pressures in the short-run, but it will probably contribute to the survival of unproductive, problematic activities in the long-run.

As far as commerce is concerned, entry into the European Union will lead inevitably to greater competitive pressure. However, if competition is combined with proper measures and domestic policies, it will modernize existing conditions in Cyprus and provide considerable leverage for development.

The government of the Republic of Cyprus is implementing a dynamic program to reform trading practices; provide data on international markets; promote Cypriot products abroad; and improve productivity.

In order to counteract pressures from imports, the government relies on rational, efficacious management of production, with emphasis on branches already showing a competitive edge. The competitiveness of domestic production is the best possible response to inundation by imports.

One may therefore safely conclude that Cyprus membership to the European Union will not stem, or otherwise divert, ongoing healthy trends in the Cypriot economy; on the contrary, it will provide additional impetus for a thorough modernization of the entire system of the economy. Provided Cyprus succeeds in this task, it also stands to reap considerable gains in the domain of external trade.