CYPRUS

What’s happening in this economy

Cyprus returned to growth in 2015 following the 2013 economic crisis. It exited IMF/ECB supervision in 2017. The government’s priorities are:

- SOE/ports privatisation
- public sector reform
- non-performing loans/banking system reforms
- the financial services industry
- sustaining tourism growth
- expanding Cyprus’ role as a global shipping service and airline transport hub
- meeting EU renewable energy targets, and
- infrastructure development to meet water scarcity and desertification pressures.

The median age of Cyprus’ population is 37.2 (2019). Cyprus has the second largest foreign population per capita in the EU (20%) after Luxembourg, including 90,000 British and 60,000 Russians.

In 2019 Cyprus also had the highest number of asylum seekers per capita in the EU, which has strained the economy.

The country has a highly educated workforce:

- it has the highest number of engineers per head in the EU
- UK and US qualifications are common, and
- a high-level of English is widely spoken.

The services sector (including tourism) contributes 87 per cent to GDP and employs 70 per cent of the labour force (2018). Tourism on its own contributes 22.3 per cent to GDP (2017) and shipping contributes 7 per cent (2019). Tourism revenues and numbers have risen consistently since 2015. There were 3,938,625 arrivals in 2018 – up 7.8 per cent on 2017. In the first nine months of 2019, arrivals have so far risen 0.6 per cent, signalling that numbers are stabilising.

Industry and construction contributed just over 20 per cent of GDP (2018) and is expected to grow: projects underway include the largest casino in Europe, and major marinas and hotels along the south coast. Limassol was the fastest growing city in the EU in 2017.

Cyprus has the EU’s third largest registered merchant shipping fleet and the 11th largest globally. It is the largest third-party ship management centre in Europe and the largest crew management centre in the world.
Agriculture accounts for 2.1 per cent of GDP and 13.5 per cent of exports (2017). The sector’s focus is on specialised and niche high-quality markets in the EU, Middle East and increasingly China. Growers and exporters have been under pressure from extended drought conditions since 2010. Goods for export are increasingly being diverted to the burgeoning tourist sector and urban consumption.

Water infrastructure (including dams, conveyer pipelines and desalination plants), LNG and decarbonised energy transition are major national priorities.

Cyprus remains exposed to economic and political fluctuations in the EU, particularly Brexit due to the historic links and UK territories on the island, and vulnerability to swings in numbers of tourist arrivals. The closure of Thomas Cook, a source of thousands of mainly British tourists, contributed to the slow down towards the end of the summer season. To counter its exposure to the EU, Cyprus is working to lever its geographic position as near as possible to the Middle East and North Africa/MENA, promoting itself as a business and transport hub across the Arab world, Israel and China.

Cyprus’ ‘Golden Visa’ scheme (€2 to 2.5 million for citizenship depending on investment type, €500,000 for residency) attracted €6 billion FDI between 2013–2017. In 2018 the scheme was wound back after EU scrutiny, but continued to play a significant supporting role in economic activity. A 12.5% corporate tax rate (five year tax holidays for corporate investors) makes it EU/regionally competitive despite perceived corruption and complicated red-tape issues. In 2019 the US conducted a fact-finding mission to Cyprus that showed vast improvement in tackling money laundering and anti-corruption procedures, a marked improvement on previous years.

Cyprus’ history as a centre for regional trade and shipping means it holds a free-market, trade-oriented approach to FTAs, including to an Australian–EU FTA. Cyprus is confident that it will do well because of its common law legal system, wide English language use and services sector experience. The key sensitivity with Australia remains recognition of Cypriot GIs (and PDOs), in particular Halloumi cheese. The government has yet to achieve PDO status for Halloumi, and so the cheese was not listed in the EU’s GIs as part of the negotiations.

The benefits of gas reserves located in Cyprus EEZ are yet to bear fruit (ENI, Total, and Exxon are involved). This promises to drive major development of port and energy facilities. Cyprus, Israel and Egypt are working to link and monetise the fields across their overlapping EEZ boundaries. Turkey’s threats to prevent by military means further exploitation (based on own overlapping claims and on behalf of Turkish Cypriots) have caused delays in the past few years to this sector’s development. Turkish manoeuvres in the Cypriot EEZ have caused tension and attracted regional and international condemnation. Turkey’s activities showed no signs of abating in 2019 and could raise concern for companies interested in future bids for exploration and exploitation.

Trade, investment, and commercial opportunities and activities

• Trade between Australia and Cyprus has traditionally been small, reflecting the market size, distance and lack of direct freight links:
  – exports to Cyprus totalled $5 million and imports totalled $34 million in 2018, although informal trade flow via third party countries might be significantly larger, and
  – trade focused mostly on diaspora (food) products.
Cyprus’ latitude, climate and rainfall makes Australia (with Israel, Spain and a few hot dry southern US states) the closest developed country analogue across a range of water, renewable energy, agricultural challenges, products and processes:

- Post has promoted the Spencer Gulf region and wider South Australia, and has bridged communication between institutions and authorities in the two regions to share knowledge and best practice
- this includes facilitating communication between Adelaide University and the Agricultural Research Institute, and a local winemaker, Zambartas (and Australian oenology alumni)
- CSIRO also has a presence in Cyprus through the Cyprus Institute of solar thermal science, and with a photovoltaic research farm on the island
- Cyprus is positioning itself as an EU-supported regional point of focus for these across MENA and Israel, and
- there is a significant opportunity for more Australian researchers from CSIRO and Australian universities, and companies including Osmoflow and Picks Group are taking a keen interest.

Cyprus is viewed by Australian companies as a minor extension of the European market. It is however also an important business and transit hub (but safe with an EU chapeau) for the MENA/Gulf market, including Israel (40 minute flight away):

- this includes water/water treatment
- renewable energy systems
- agriculture
- industry and engineering
- shipping
- oil and gas, and
- service industries including administration, training, research and distribution hubs.

There are opportunities for Australian financial expertise, consultancy and logistics in the burgeoning fields of aviation and airports, gas and energy, infrastructure, tourism and casinos:

- there are Australians at the top of their fields working in these industries in Cyprus, all for foreign companies, and
- Australian traders of online currency and financial products have established offices in Cyprus in the last two years.

Cyprus had big plans to rival the Gulf states as a major regional aviation service and passenger transit hub with the newly privatised Larnaca airport and new Cyprus based airlines:

- with China’s investment and public support—as a declared part of the Belt Road Initiative—the plans aimed to capture 30 per cent of the Gulf’s long haul East Asia/EU transit traffic in by 2030, and
- the collapse in 2018 of Cyprus Cobalt Airlines damaged these plans, but according to officials, a recovery is expected.
• There are opportunities in **major retail franchises** (Gloria Jeans Coffee is ubiquitous in Cyprus) as the economy returns to its pre-crisis levels and surges on cashed-up tourism. Cyprus is also a major purchase and distribution point into Russia for many upper-end goods and products:
  — interest is being shown from Australian boutique whisky distillers, and
  — Post recently hosted an evening to introduce Tasmanian whisky, and showcase the products to alcohol importers as well as the country’s deputy shipping minister and health minister (the latter a partner in Gloria Jeans and owner of one of the biggest marketing companies in Cyprus).

• Cyprus faces a massive **waste management problem**—including tyre dumps—that the EU wants solved. Australian companies tendering for government projects (waste/water in recent years) have been at a disadvantage to foreign (usually Israeli) competitors as Australia was not party to GPA:
  — as of May 2019, this disadvantage was removed with Australia’s GPA ratification, allowing future bids to be on a level playing field.

• The English-language tertiary education industry is growing rapidly from a small base:
  — Cyprus is not in the EU Schengen zone and as a result has a more liberal visa framework than mainland EU/Europe
  — it is targeting African, Middle East and Chinese students, and there are opportunities for Australian tertiary institutions to partner with Cypriot, including to sell educational products to non-Cypriot students
  — linkages are slowly being established between institutions, but competing with EU-subsidised degrees and deep historic UK links is challenging. Brexit could encourage Cypriot students and their families to consider alternative destinations such as Australia, and
  — Monash University, through its Accident Research Centre, is establishing a presence at the European University Cyprus through a partnership with the university’s Centre of Excellence in Risk and Decision Sciences. An MOU was signed in 2019 and the first dual-supervised PhD student has been enrolled. Melbourne University’s architecture department is taking its first steps towards an MOU with the University of Nicosia’s Architecture Department.

• There is limited formal internationally certified vocational training in Cyprus (which would attract EU certification) for industries working across MENA.

• Cyprus is a centre of global shipping management and services, and high standards of regulated product handling, output and safety are required:
  — this is particularly so in the oil and gas, aviation and chemicals industry, which provides a niche opportunity for Australian educational institutions.

• Cyprus is developing its retirement and aged care facilities to attract an ageing European market:
  — while still in its infancy, this is an opportunity for Australia to partner in this sector.

• Cypriot FDI in Australia is minimal:
promoting Australian infrastructure projects through www.infrastructurepipeline.com.au has generated interest from major Cypriot engineering companies working across MENA and North America, and

more targeted engagement and follow-up is required.

- Post is working to capitalise on opportunities, including:
  - lobbying research bodies to collaborate with Australian universities, organisations and private companies
  - promoting Australian STEM and best practice in environmental science, renewable energies, agriculture and road safety research
  - encouraging institutional, NGO and governmental partnerships, and
  - encouraging a Cypriot trade delegation to Australia in 2020, including the Cypriot Chambers of Commerce, Invest Cyprus (Cyprus’ version of Austrade), and business partners and researchers looking to collaborate.

Trade policy and negotiations

Australia is negotiating an FTA with the EU. As an EU member state, Cyprus will have the opportunity to provide input.

Cyprus’ trade settings are liberal and open-market oriented. Agriculture, in particular food and wine, remains an area of sensitivity.

Halloumi cheese is a complicated sector and internal Cypriot issues in milk and cheese production industries will affect Australia–EU FTA negotiations. Political and business leaders have expressed interest in diversifying from the EU markets and would consider Australia as a source or destination of business and trade.

Mainstream political party seniors and MPs, as well as business leaders, support an Australia–EU FTA. Dialogue with cheese-makers and dairy farmers is ongoing around the Australia–EU FTA negotiations.


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