

Foreign Investment Policy comes of age?!

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On 15th October 2021, the Cyprus Government announced its latest action plan for attracting foreign businesses to establish or expand their activities in Cyprus. As is well documented, previous investment plans, such as the original 'Cyprus Investment Programme', have attracted sharp criticism. The EU, in particular, accused Cyprus of selling its coveted passport to unsavory characters. Less headline grabbing, but possibly of more importance for the economy and the Cypriot people, were accusations from home and abroad that little true investment was being made in the Cyprus economy. Most money was directed to non-productive real estate with industry, shipping and agriculture substantially ignored.

Against this background, and amidst the scandals swirling around the Pandora and Panama papers, it was therefore refreshing to hear President Anastasiades announce a strategy which is directed at making Cyprus a sustainable business and trade centre for the region and for Europe. The strategy has five pillars and consists of twelve action points based on what is considered 'best practice' in other parts of Europe. The intention is that these will prove an attraction, in particular, for businesses in the shipping, high technology, innovation, pharmaceutical, biogenics and biotechnology sectors. Growing the economy via highly skilled and high value-added businesses is viewed as both desirable and essential for the future sustainability of the Cyprus economy.

Key elements of the strategy may be summarized as follows:

- Establishment of a Business Facilitation Unit. This will subsume the current Fast Track Business Activation mechanism for companies of foreign interest. The intention is to provide guidance and the assorted services necessary for a foreign business to become fully operational.
- Revision of the policy for issuing Residence and Employment Permits to highly skilled third country nationals and supporting staff. Highly skilled individuals in the 'targeted sectors' with employment contracts for a minimum period of 2 years and minimum salary of 2500 per month will receive work permits 'immediately' and the permits will be valid for up to 3 years. Eligible companies may also employ third country support staff on salaries of less than 2500 per month. Work and residence permit for such staff will last 3 years. Numbers in both categories are subject to restrictions linked to percentage of total workforce.
- Family reunification rights to third country nationals employed as above. Spouses of 'high skilled' staff will be allowed access to employment although those of lower paid support staff will not.
- Simplification of the process of granting work permits under category E to persons offered permanent employment and whose employment does not create undue local competition.

- Introduction of a 'Digital Nomad' visa. Subject to certain criteria, up to one hundred visas will be granted to third country nationals, self-employed and employed individuals who work remotely using IT to communicate with clients and employers outside of Cyprus. The visa will last one year, and family members may accompany the 'Nomad' but not work. The Nomad may apply for the visa to be renewed for a further two years.
- Possibility of reducing period of residency and work required before an application for naturalization may be submitted by a third country national.
- Various tax incentives which will be submitted to the House of Representatives for approval in December 2021 with the hope that approval will be granted in the first quarter of 2022. These include tax benefits for differing categories of new employees, extension of 50% tax deduction for investing in certified innovative companies to corporate investors as well as to natural persons, and the granting of an increased level of tax-deductible expenses for eligible research and development projects.

Taken together it is clear that the government is aiming for a 'brain inflow' to the country with a view to shifting the economy into the modern fast lane and transferring and building the skill sets that Cyprus will need for a sustainable and profitable future.

Given the timing of the government announcement it might be tempting to suggest that the 'new strategy' is simply a knee jerk reaction to try to divert attention from the current wave of negative publicity concerning the Pandora papers. However, this would be unjust. The announcement is, in effect, simply a continuation of a directional shift that has been in process for several years now. Consider, for example, the introduction of the Deputy Shipping Ministry and the steps that it has taken to safeguard the future of the Tonnage scheme and to build the reputation of Cyprus as a high standard shipping hub which is committed to health and safety. Cyprus was one of the first countries to facilitate crew changes when Covid 19 paralyzed the world and, is leading efforts to facilitate crew vaccinations. It has also adjusted the Tonnage scheme to incentivize the 'greening' of ships. Outside of this there has been a concerted effort to promote, with some success, Cyprus as a Headquartering destination and the introduction of incentives such as the IP Box scheme has attracted some notable hi-tech and innovative businesses to the country. It is no accident that 'REFLECT' the biggest 'Hi-tech' and future looking event in the region has made its home in Limassol.

Cyprus has long had numerous advantages such as its location, its highly educated population, its transparent legal system, its political stability and a 'can do' attitude all of which render it attractive to foreign businesses. The measures announced by President Anastasiades should add to this appeal and would be beneficial to the type of businesses that are being targeted. Perhaps the most important feature of the announcement, however, is that it publicly signals an end to the 'get rich quick' mentality of past policies and declares support for the creation of an economy grounded in tangible and sustainable business.