

Russia Doing Business in Cyprus 2017

Measuring Quality and
Efficiency Survey Report

 **CYPRUS
RUSSIAN
BUSINESS ASSOCIATION**

 **EY**

Building a better
working world

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Antis Nathanael | Director at Cyprus-
Russian Business Association

The survey assessed and documented the confidence, outlook, priorities, and potential obstacles encountered by Russian Business people in Cyprus, and examined how they plan to grow their organisations. Additionally, it identified and documented particular problems they are facing and our aim is to help them develop solutions alongside the Cyprus Government.

We would like to thank all the respondents for their participation. We are happy to share the consolidated results and analysis with you.

August 2017

Dear Valued Associates,

We are pleased to present the results of the Russian Businesses Survey Report.

This survey collects and reports points of views and attitudes of Russian businesses in Cyprus and provides insights into their intentions, explores the advantages and disadvantages of Cyprus' business sector and identifies any critical issues and ways for improvement.

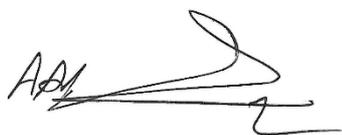
The report is based on extensive research, carried out by EY Cyprus on behalf of the Cyprus-Russian Business Association, between October 2016 and April 2017. The questionnaires used for the survey were developed by EY Cyprus.

The survey results were based on the responses of 70 Russian business executives based in Cyprus. At this point, we would like to thank all the respondents for taking the time to give us valuable insights.

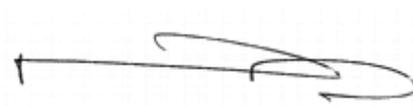
Some of the issues and challenges that Russian businesses face are the lack of skilled labour and senior management, the unstable banking sector and bureaucracy.

We are confident that our vast EY network of local and global knowledge and expertise will be able to navigate Russian businesses through best practices and innovative strategies as well as offer support in streamlining solutions alongside the government to ensure their success. At EY, our aim is to promote, expand and encourage economic and trade relations between Cyprus and Russia. We believe that communication should be maintained on a regular basis between the business communities of the two countries.

Sincerely yours,



Andreas Avraamides
Partner, Assurance Services
EY Cyprus
Andreas.Avraamides@cy.ey.com



Nick Nicolaou
Partner, Assurance Services
EY Cyprus
Nick.Nicolaou@cy.ey.com



Introduction

Historical, religious and cultural bonds have linked Cyprus and Russia for centuries. Strong diplomatic relations were established with USSR as early as 1960. The relations between Russia and Cyprus are traditionally friendly due to the similarity of positions in international issues and Russia's support in the efforts for a just settlement of the Cyprus problem. The co-operation between the two countries rests upon a solid legal basis with a large number of agreements (political, economic, commercial, cultural, legal, etc) in place.

In 2002, the Intergovernmental Protocol on the Inventory of Bilateral Agreements entered into force. In 2005, during the official visit of the Russian Foreign Minister to Cyprus, H.E. Mr. Lavrov confirmed that Russia will continue to support the positions of the Cypriot government on the Cyprus Problem, with the aim to achieve a viable solution, acceptable to all parties involved, on the basis of the relevant UN Security Council resolutions. With Cyprus' entry into the European Union on May 1st 2004, another dimension was added to Cyprus-Russia relations as the EU is a strategic partner of Russia.

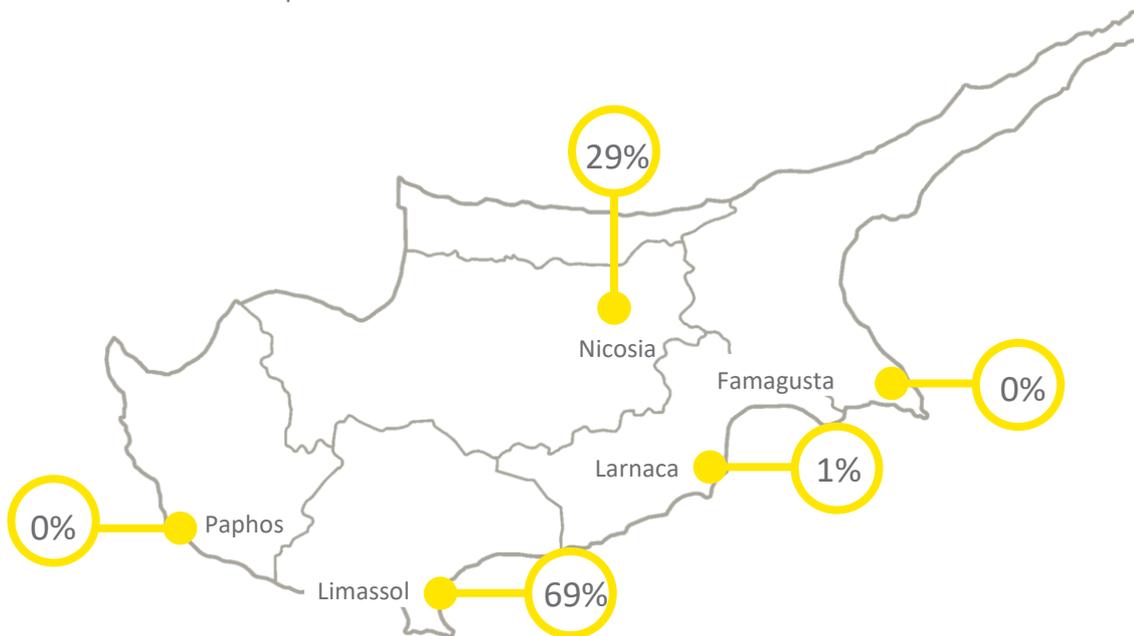
The economic ties and trade between Cyprus and Russia are strong. A large number of Russian entrepreneurs use Cyprus as their base for business and investments. Cyprus imports various goods from Russia, including oil, iron and other metals, timber, etc. Cyprus exports to Russia include mainly agricultural products, foodstuff and pharmaceuticals. To date, Cyprus granted citizenship to 3,322 individuals under the citizenship by investment scheme, 34.3% of whom were formerly of Russian origin. The citizenship program attracted \$4.4 billion in investment over four years. In addition, a significant number of Russian tourists visit Cyprus. In 2016 Russian tourists increased by 49% compared to 2015, to 780,000 visitors.



I. Survey Profile

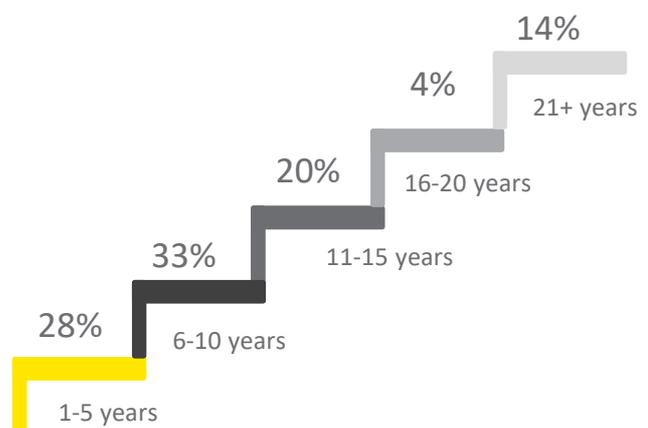
1. Which town is your business located in?

According to the Population Census which was launched in 2011, Russian citizens were 8,663 by then, i.e. 4.8% of the total population of Cyprus. From 2001 to 2011 there was an increase of 74,93% of the Russian population on the island. Today, it is estimated that approximately 40,000 Russians live in Cyprus, the vast majority of them in Limassol. Limassol boasts three Russian schools with a total of 600 students, two nurseries and 20 educational centres. A Russian church is also being built. The Russian Commercial Bank (RCB) was also set up in Limassol in 1995 and has expanded with branches in Nicosia and Paphos. Modern and investor friendly infrastructure, a healthy climate and business activity as well as a growing Russian community make Limassol an attractive place for Russian Businesses.



2. Years of business presence/operation in Cyprus

As mentioned before, more than two thirds of the Russian businesses operating in Cyprus are located in Limassol. The development of tourism in Limassol began after 1974 when the northern part of Cyprus was occupied in the Turkish invasion of Cyprus. When the USSR collapsed, many Russians moved to Limassol. Since then, there was a chain attraction of more. The Protocol amending the bilateral Agreement on Avoidance of Double Taxation with respect to Taxes on income and capital was signed in Nicosia in 2009, which strengthened relations between the two countries even more.

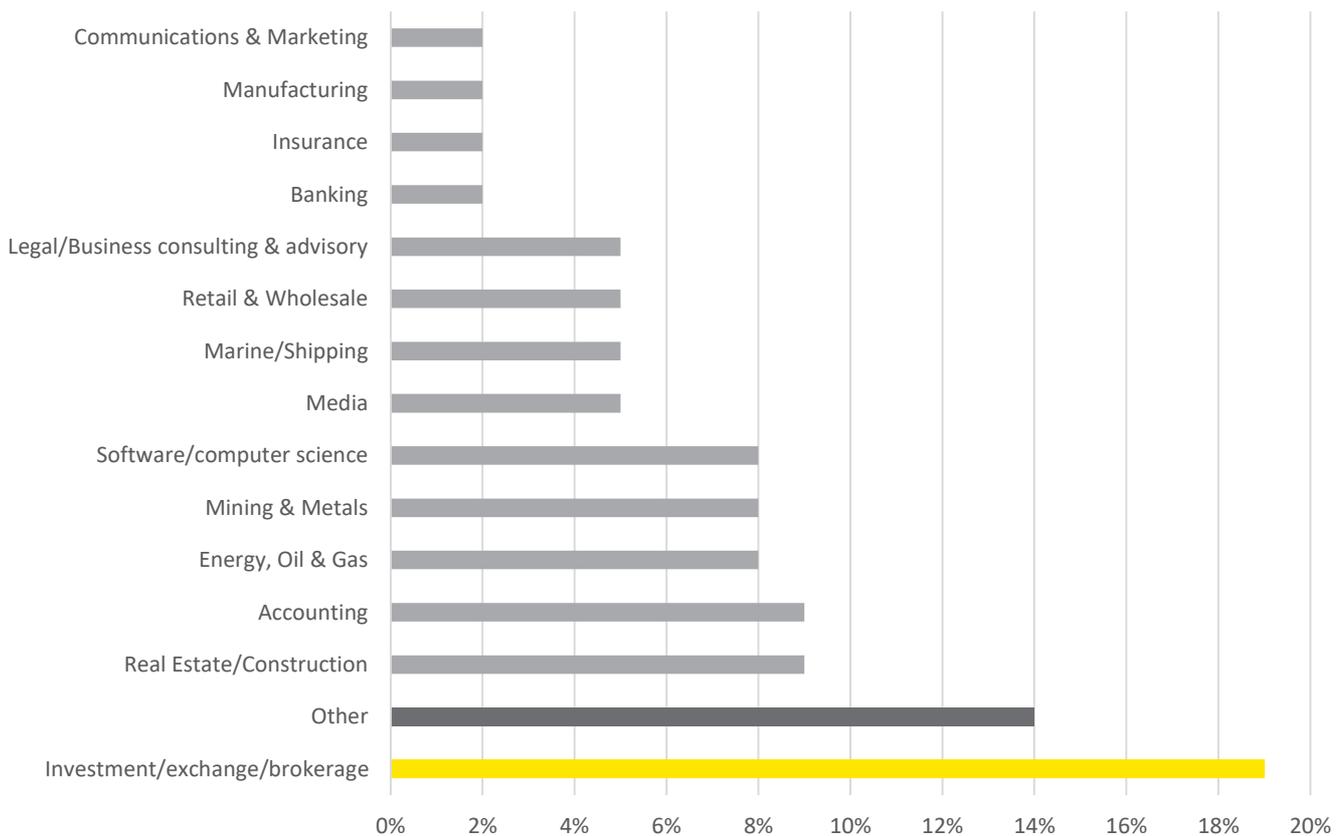


3. Industry operating in

Nearly one fifth (19%) of the people surveyed operate in the investment/ exchange/brokerage sector, while 14% operate in other sectors, such as tax, trust and corporate services, beauty and health, event planning, tourism, marketing services, administration and aircraft leasing.

In Limassol there are many Russian Forex Brokers, licensed by local and international authorities. These companies offer an array of financial services including trading of stocks, commodities and foreign exchange. The reasons why so many Forex brokers choose the small island of Cyprus as a base for operations are among others, the low taxes, the MiFiD, the large financial sector and the telecoms infrastructure.

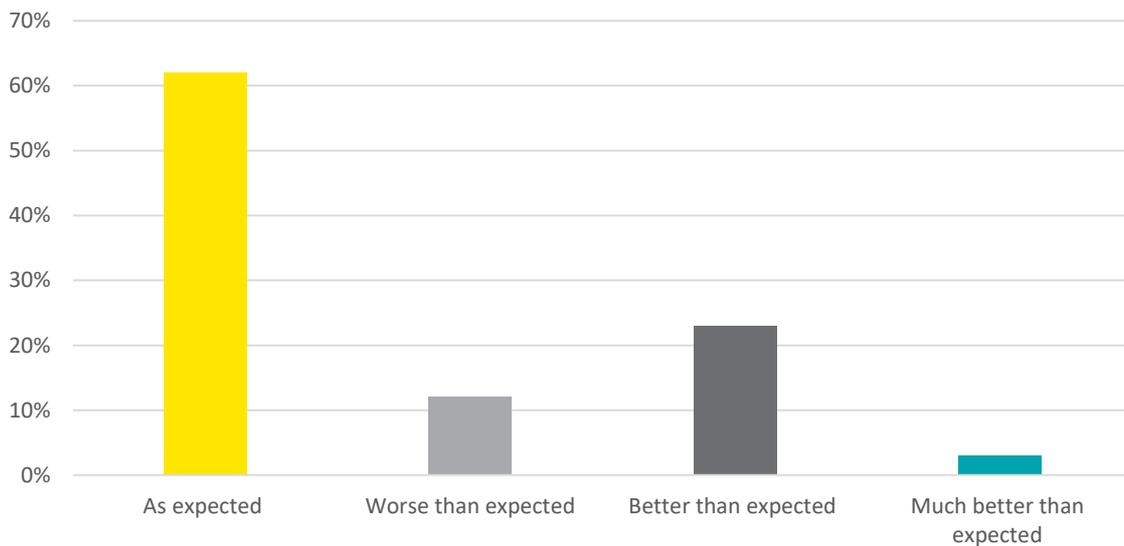
It has been suggested that the economic crisis in Cyprus might lead to a number of brokerages to move elsewhere, however did not happen. The reputation of Cyprus as a destination for foreign exchange brokerages has been confirmed lately by the new brokers applying for licences.



II. Expectations and Intentions

4. What is your actual experience from operating in Cyprus compared to your expectations?

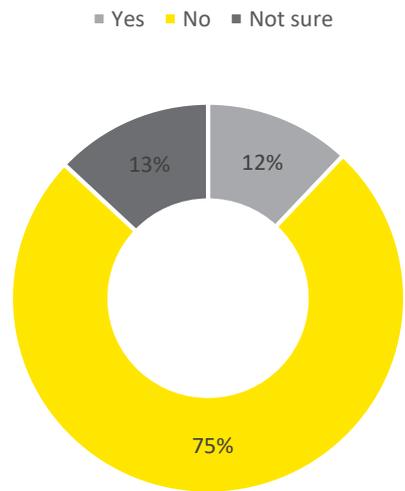
Cyprus has long established itself as a business hub. The island's strategic location, advanced infrastructure and quality of life are the key reasons to relocate and do business in the Country. Located at the crossroads of three continents - Europe, Africa and Asia, Cyprus plays a key role in the Eastern Mediterranean. It benefits from an extensive telecommunications network, which is ideal for business people.



5. Intention of moving to another location outside Cyprus?

A great number of Russians living in the EU returned to their home country in 2016, due to the growing anti-Russian climate within the European bloc. About 30,000 Russians left the EU in 2016. A major reason is a recent government incentive-laden programme aimed at luring Russians back home. For political, economic and cultural reasons Russophobia never existed in Cyprus. Relations between the two countries were and remain excellent. For Russian living here, Cyprus is their chosen home.

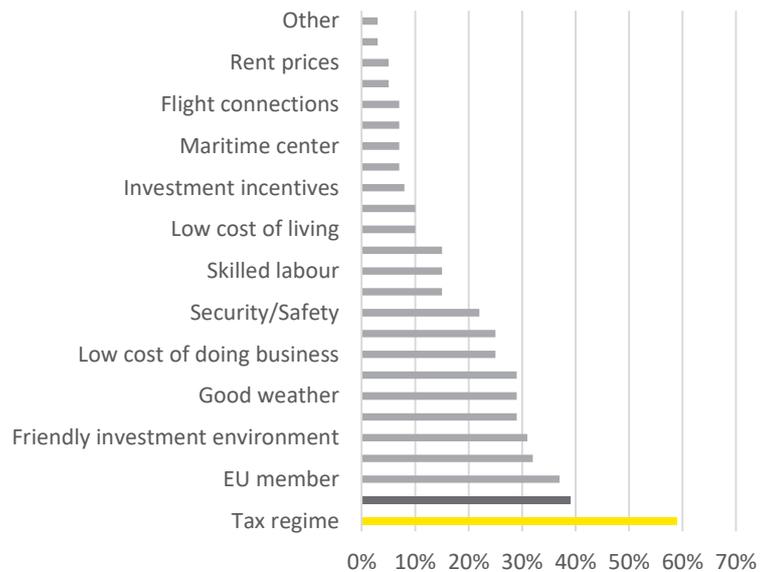
Cyprus has a Mediterranean climate with year-round sunshine as well as the most Blue Flag beaches per capita in Europe. Cyprus also offers a safe environment, with low crime rates, suitable for a family life. Cyprus was ranked fifth worldwide according to ValuePenguin’s Safest Countries (2015). The pleasant weather, allows sports enthusiasts to ski in February and March, swim and kite surf from April to December, cycle, play tennis and golf all year round. Furthermore, plenty of restaurants, bars and clubs, theatres and concerts offer a high level lifestyle. Combined with an advanced professional services industry and supporting infrastructure, as well as competitive tax incentives, this makes Cyprus an attractive location to relocate and conduct business.



III. Merits and “Handicaps”

6. Reasons for choosing Cyprus as a business destination.

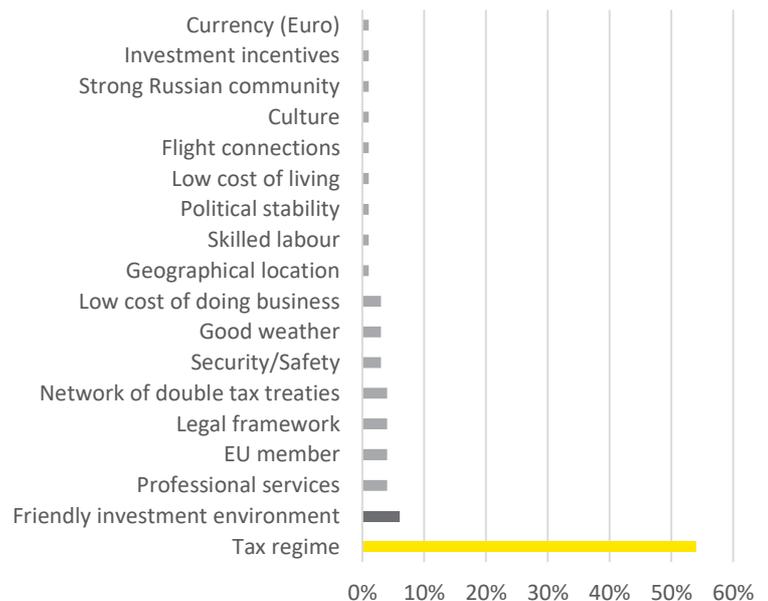
According to the survey results, taxation is arguably the most critical factor for choosing Cyprus a business destination (59%). The legal framework and EU membership follow with 39% and 37% respectively. Cyprus offers an attractive tax system fully compliant with EU, OECD and international laws and regulations. As a member of the EU and the Eurozone, Cyprus ensures safety and stability for investors, while also offering market access to more than 500 million EU citizens. In addition, Cyprus’ legal system is based on English Common Law and is also fully compliant with the EU, the Financial Action Task Force on Money Laundering (FATF), OECD, FATCA, the Financial Stability Forum laws and regulations and EU AML directives.



7. What is the single biggest advantage of Cyprus as a business destination?

Some of the main features of the Cyprus tax system include:

- Extensive network of more than 60 Double Tax Treaties
- Exemption on disposal of securities (e.g. shares, bonds, debentures)
- No inheritance taxes
- No capital gains tax (except for disposal of real estate in Cyprus or shares of company holding real estate in Cyprus to the extent gains are attributable to the real estate holding)
- Attractive IP regime
- Tonnage tax system for shipping companies
- No withholding tax on dividends and interest payment to non-tax residents and to non-domiciled individuals
- 50% exemption on income from employment in Cyprus of a person who was not previously resident in Cyprus. The exemption applies for ten years, provided that the income from employment in Cyprus exceeds €100,000 per annum.
- Dividend income exempted from taxation (conditional)

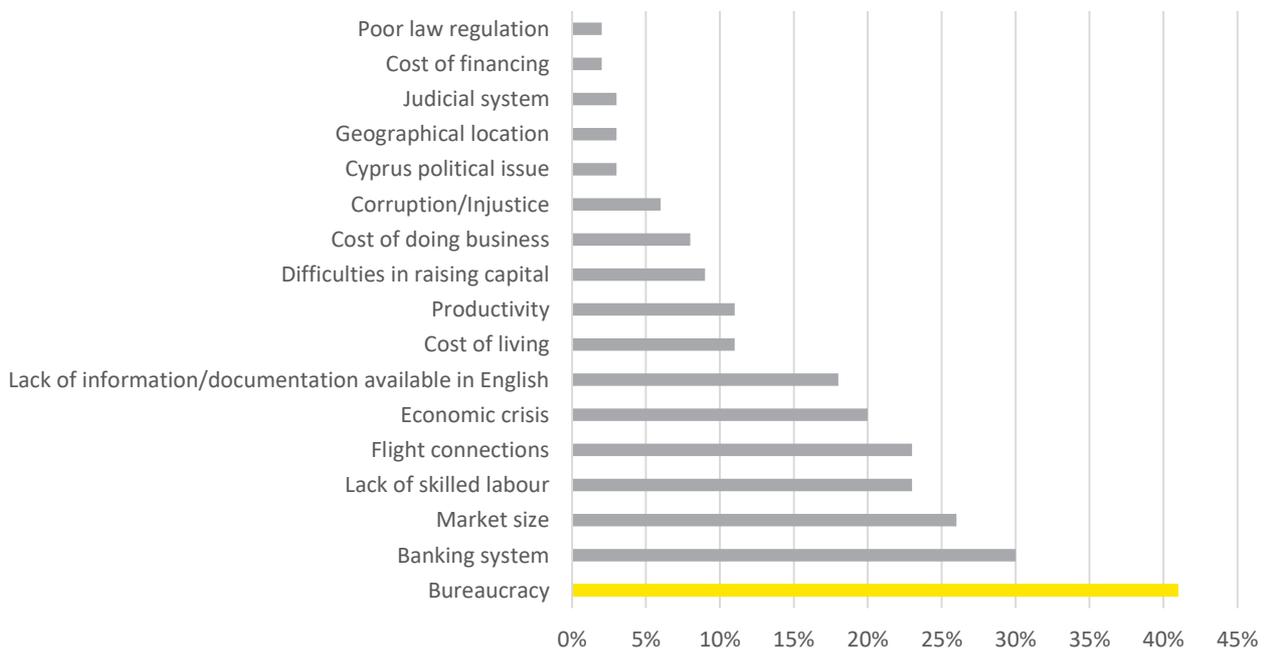


8. What are the disadvantages of Cyprus as a business destination?

Bureaucracy is generally seen as the greatest disadvantage of the destination and a key area that hinders expansion in business activity and business development.

A World Bank report that compares business regulations for firms in 189 economies around the world confirms the bureaucratic issues that plague businesses on the island and hamper the efforts to attract investments for major development projects and entrepreneurship. Although Cyprus ranks 47th (38th in 2014) on ease of doing business and 64th (44th in 2014) on starting a business, it performs very poorly on construction-related activities and the enforcement of contracts. For example: It ranks 145th (86th in 2014) in dealing with construction permits, which requires nine procedures with an average time to secure a license at 617 days (677 days in 2014). It ranks 67th (108th in 2014) in getting electricity, which requires five procedures and takes an average of 247 days (137 in 2014) to obtain supply. When it comes to registering property, Cyprus ranks 103rd (92nd in 2014), with the process requiring seven (six in 2014) procedures and taking an average of 9 (6 in 2014) days. As for efficiency of the judicial system in enforcing contracts, Cyprus ranks 143rd (110th in 2014), with the process involving 43 (43 in 2014) procedures and taking an average time of 1100 days (735 days in 2014).

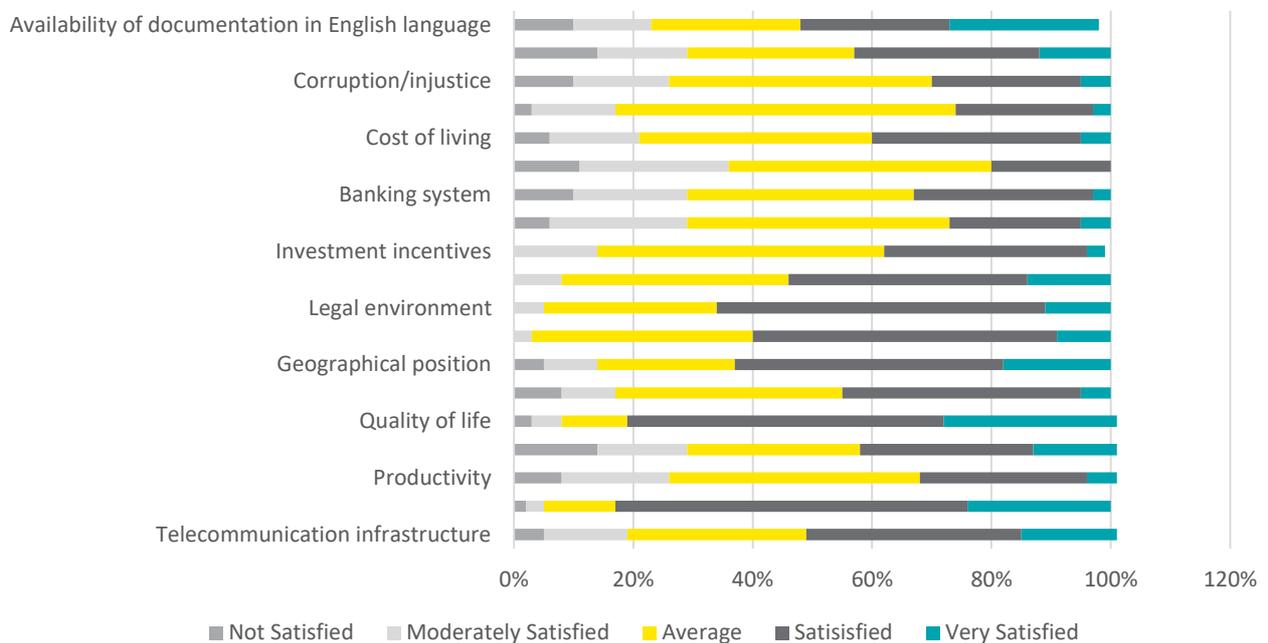
Development and bureaucracy are two incompatible concepts. The required business-friendly environment should be fostered and necessary incentives and fast track proceedings should be provided. Public sector organizations should be gradually transforming themselves under the pressure exerted by Internet technologies. They should pass through the interactive stage, gradually sidling up to the challenges of creating end-to-end processes that deliver enhanced value from public administration.



IV. Satisfaction Measurement

9. Please rate your satisfaction with the following

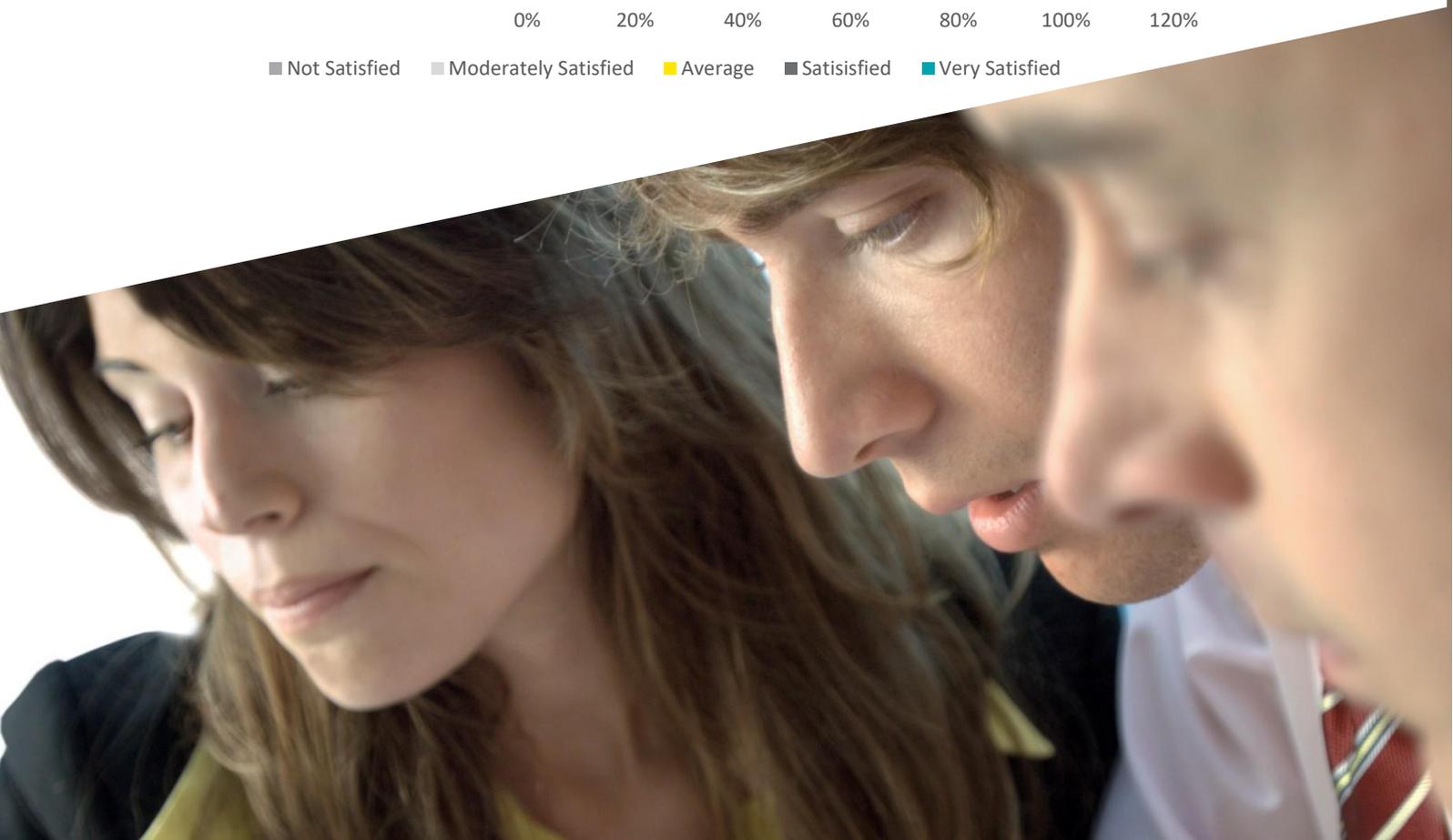
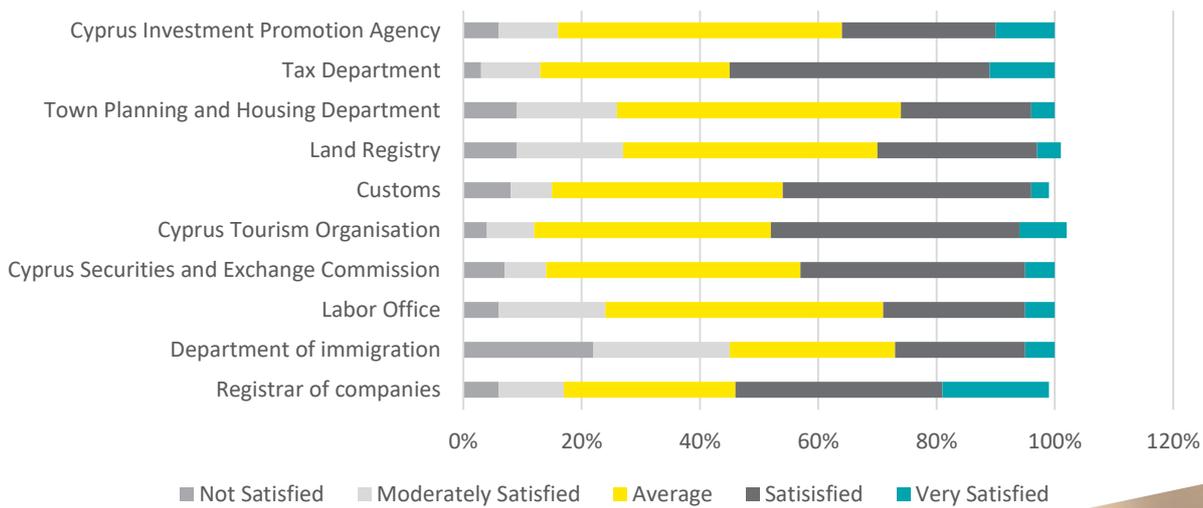
The majority of the respondents are satisfied (59%) and very satisfied (24%) with the tax regime. The majority of the respondents are also satisfied (55%) with the legal environment. Semi-governmental organisations (57%) and investment incentives (48%) offer average satisfaction to the people surveyed. Skilled labour (14%) and educational systems (14%) received the most “not satisfied” answers.



**10. Satisfaction with public service for the efficient operation of your business.
Please rate your satisfaction with the following**

The Registrar of companies has the highest percentage of very satisfied respondents (18%) and the Immigration Department has the highest percentage of not satisfied respondents (22%). The participants are satisfied with the Tax Department (44%), Cyprus Tourism Organisation (42%) and Customs (42%) and report average satisfaction with the Town Planning and Housing Department (48%), the Cyprus Investment Promotion Agency (48%) and the Labor Office (47%).

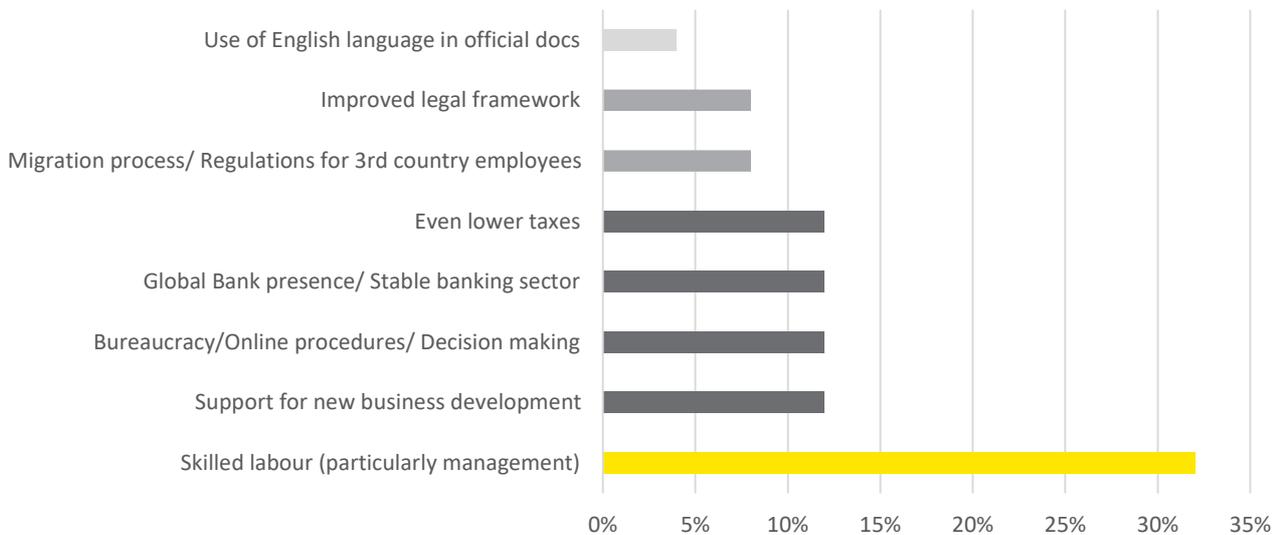
New companies registered with the Department of the Registrar of Companies this January were increased by 14.7% compared to the same month of the previous year, making January the 17th month in a row with an upward trend. The total number of registered companies as of January 31, 2017 were 209,413. Within January 920 new companies were registered. New registrations of foreign companies came to 6.



V. Evolution

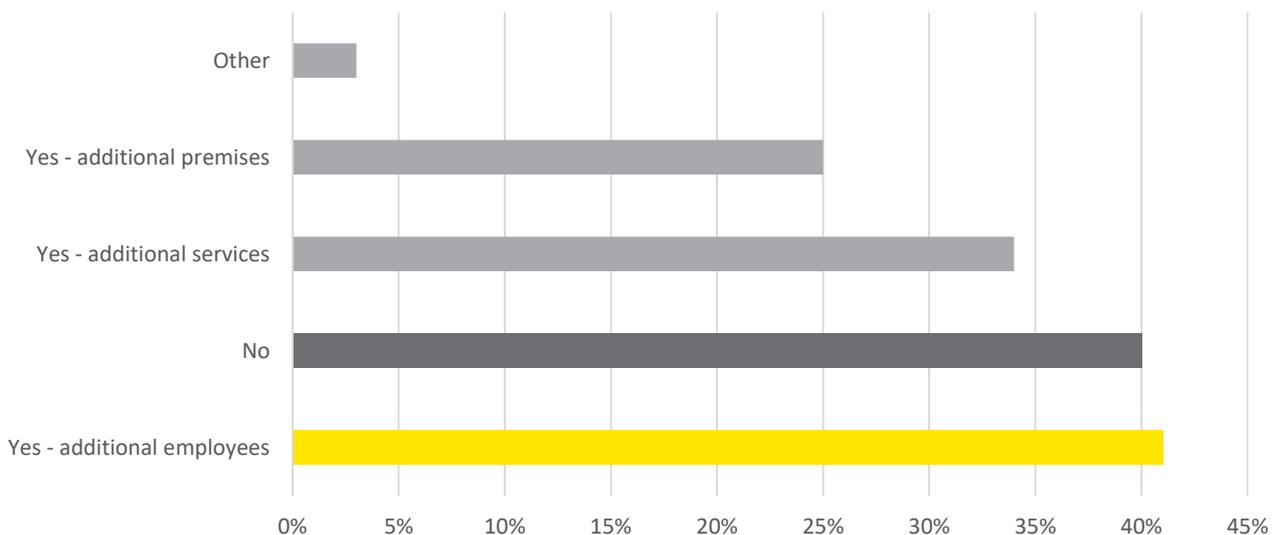
11. What would make Cyprus a better place to do business?

Nearly one third (32%) of respondents believe that skilled labour (particularly management) would make Cyprus a better place to do business. In Russian businesses established in Cyprus there are both Russian and Cypriots employees, but for senior management positions Russians are generally preferred.



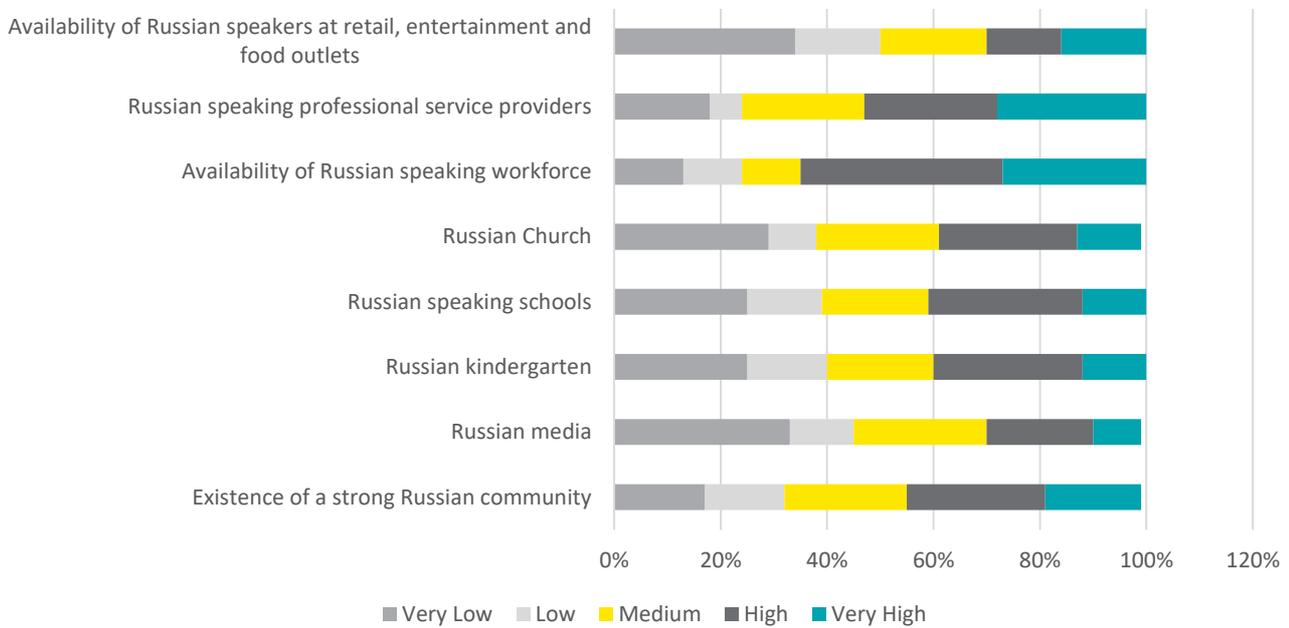
12. Do you plan to expand your business in Cyprus?

41% of the people surveyed plan to expand their business in Cyprus with additional employees, 34% with additional services, 25% with additional premises and 40% do not plan to expand. 3% are not sure yet about their expansion. A big percentage of the respondents expressed their intention to hire additional employees. According to CyStat, the number of Cypriots employees increased by 3% in 2016 compared to 2015 and the number of non EU Nationals decreased by 13% for the same period.



**13. How important would you rate the following factors to your choice of country for doing business?
Please rate your importance with the following**

Russian speaking professional service providers (28% very important and 25% important) and availability of Russian speaking workforce (27% very important and 38% important) are the most important factors for choosing Cyprus as a country for doing business. On the other hand, availability of Russian speakers at retail, entertainment and food outlets (34%) and Russian media (33%) are the least important factors for choosing Cyprus. Knowledge of Russian language is often a prerequisite of job requirements. This fact has led many Cypriots to learn the Russian, especially in Pafos and Limassol, so that they can be competitive.



14. Any other comments?

The Middle East and North Africa has been home for tension and conflict since the end of the 19th century. These areas, which are neighboring with Cyprus, are currently in great turmoil, capable at the moment of being stumbled into widespread conflagration that can affect business and investment climate. In this case, business is closely related with politics.

Many Russians living in Cyprus are willing to be involved into politics. Currently, the Ministry of Interior is examining the application of a political party which was submitted by Russians with Cyprus citizenship. While a part of the Cyprus Russian community are fierce supporters of this new party, others doubt about it, as they do not agree that such a party is needed. In addition, some of the Russian businessmen believe that this would draw unnecessary attention to the community.

Conclusions

Russian companies, most of which operate in Limassol in the investment/ exchange/ brokerage sector have been surveyed for the purposes of this report. These companies started relocating to Cyprus after the USSR collapse. The majority of them mentioned that Cyprus met or exceeded their expectations and they have no intention of moving, but they plan to expand.

Russian businessmen who took part in the survey have voiced frustration with bureaucracy, out-dated administration methods, lack of skilled labour and lack of stability of the banking system. Political instability due to the Cyprus problem and the political turmoil in the region have also been mentioned as inhibiting factors. On the other hand, they report a positive impression of the tax regime, legal services and the fact that the island is a member state of the EU. In addition, the most important factors for choosing Cyprus for doing business is the Russian speaking professional service providers and workforce.

Regarding government services, businessmen are satisfied with the Registrar of companies and the Tax Department, but they pointed out that that the Immigration Department does not meet their expectations.

The main goal for both the Cyprus and Russian side should be to bridge the gap between the Russian and the Cypriot culture while advocating for peaceful coexistence, based on mutual respect. The Russian population should become part of the Cypriot society and not a minority in it without losing their national identity.

Economic and trade relations between Cyprus and ex-Soviet Union countries should be promoted, expanded and encouraged.

EY in Cyprus

EY in Cyprus has its origins dating back to the 1930s. Today the Cyprus practice is a leader in assurance, tax, transactions and advisory services. We operate through our offices in Nicosia and Limassol and we are part of EY's Europe, Middle East, India and Africa Area and one of the 22 countries that comprise the Central and Southeast Europe Region.

Within this structure, we are able to tap into our skilled global experts to provide fast and exceptional service enabling our clients to make the right decisions. We are closely linked with EY's dedicated global industry centers, for sharing industry-focused knowledge and experience. In this way we anticipate market trends, identify implications and develop clear points of view on relevant industry issues.

We serve as a trusted business advisor and auditor to a broad range of clients, from private individuals and entrepreneurial businesses to major public companies and large multinationals. We recognize that all our clients are on a unique journey and we work with them to create a tailored client experience that helps them achieve meaningful results.

Our service offerings:



Assurance services

- Audit and other attestation reports
- Financial accounting advisory services
- Fraud investigation & dispute services
- Climate change & sustainability services



Global compliance and reporting

- Establishment and set up of legal entities
- Corporate secretarial support services
- Administration services
- Accounting services
- Payroll administration and personnel related services
- Temporary staff secondment
- Immigration and work permit assistance



Transaction advisory services

- Transaction support services (e.g. business reviews, due diligence, etc)
- M&A advisory services, including IPOs
- Restructuring services
- Project finance services



Taxation services

- Business tax services
- Indirect tax
- People advisory services
- International tax
- Transaction tax



Advisory services

- Risk services (e.g. internal audit, AML, controls transformation, risk remediation, etc)
- Information technology services
- Performance improvement services, including supply chain and operations
- Actuarial services



EY Law

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- Corporate and MBA
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- Intellectual property
- Real estate
- Public procurement
- Shipping

Contact information



Andreas Avraamides

EY Cyprus
Partner, Assurance Services
Andreas.Avraamides@cy.ey.com

Jean Nouvel Tower
6 Stasinou Avenue
P.O.Box 21656
1511, Nicosia, Cyprus

T: +357 22 209 999
D: +357 22 209 778
F: +357 22 209 997



Nick Nicolaou

EY Cyprus
Partner, Assurance Services
Nick.Nicolaou@cy.ey.com

Jean Nouvel Tower
6 Stasinou Avenue
P.O.Box 21656
1511, Nicosia, Cyprus

T: +357 22 209 999
D: +357 22 209 864
F: +357 22 209 997



Antis Nathanael

Director Cyprus Russian Business
Association
stavri@ccci.org.cy.

38 Grivas Dhigenis Ave. & 3
Deligiorgis Str.
P.O.Box 21455
1509, Nicosia, Cyprus

T: +357 22 889 800
D: +357 22 889 719
F: +357 22 669 048



