SUMMARY PROJECT FICHE

1. BASIC INFORMATION

1.1 Title:
Measures to develop the operational capacity of the Department of Customs & Excise.

1.2 Code: CY0001.02.01

1.3 Sector:
Indirect Taxation – Excise
Customs Union - Customs

1.2 Location:
Ministry of Finance
Department of Customs & Excise
Customs Headquarters
Nicosia, Cyprus

2. OBJECTIVES:

2.1. Wider Objective
To strengthen the legal, administrative and operational capacity of the Department of Customs and Excise through the development and implementation of legislation, and the establishment of robust operational policies, systems and procedures to support it.

2.2. Immediate Objectives

2.2.1. To harmonise customs and excise legislation with the Acquis Communautaire and develop the operational capacity of the Department to implement and enforce it.

2.2.2. To develop and strengthen operational capacity in the key functional areas of border control, customs and tax warehouses, post-clearance audit, procedures with economic impact, fraud investigation and enforcement, and trade facilitation.

2.2.3. To automate the processing of customs import and export declarations.

2.2.4. To develop and strengthen the organisational systems for business planning, management, and staff training and development.

2.3. Accession Partnership and NPAA priorities
Effective application of the necessary measures with a view to reinforcing the administrative and institutional capacity of the Department of Customs & Excise, thus paving the way towards future accession.

Short Term Priorities:
Ch. 10 - Taxation :
♦ abolish all excise duty discrimination against imports from the EU
♦ introduce tax warehouse system and the movement procedures of excisable goods.

Ch. 25 – Customs & Excise :
3. **DESCRIPTION:**

3.1. **Background and justification**

**Cyprus Screening Priorities**

The screening process on Customs Union identified the main areas of harmonising legislative issues with those of EU. The screening process resulted in identifying the following needs:

(a) the amendments to the primary legislation of the customs and excise laws;
(b) the introduction and implementation of the customs procedures with economic impact and other customs procedures not existing at the moment;
(c) the adoption and implementation of the system of tariff suspensions;
(d) the administration of quotas and ceilings;
(e) the use of a modern computerised business support system;
(f) the creation and reinforcement of the structures necessary for the effective and efficient implementation of the Union's acquis.

Aside from these issues, other fields of legislation requiring harmonisation with EU rules over which the customs administration does not have sole responsibility but which require strengthening of co-operation between Government Departments in order to ensure full implementation of the acquis communautaire are the fields of:

(i) Free zones
(ii) Counterfeit and pirated goods
(iii) Justice and home affairs
(iv) Fight against fraud, organised crime and illicit drug trafficking.

Furthermore, in the field of excise duties which fall within a general system of internal taxation, a new legislation must be drawn up and new methods of customs control must be adopted and implemented in respect of the production, the movement and the monitoring of excisable goods in aligning with the Union's acquis.

**Cyprus Position Paper**

The text used below is an extract from the Cyprus position paper regarding the department’s implementation capacity.

«Cyprus will introduce amendments to its Customs and Excise Law and to its secondary customs legislation to bring it into full conformity with the Community legislation on the following items:

- Customs regimes with economic impact
- Simplified procedures
- Import and export of counterfeit and pirated goods
- Import and export of cultural goods
- Import and export of precursors
- Customs warehouses.»
Two free zones in ports and one industrial free zone exist in Cyprus. These will be aligned with Community requirements by the date of accession.

Cyprus will align its legislation on duty reliefs with the Community legislation. Cyprus will develop its computerised system for the handling of customs procedures in order to have full compatibility upon accession.”

3.2. Linked activities
A number of short-term assignments have been requested from TAIEX, which are complimentary to the activities listed in this fiche. Furthermore

3.3. Results

Immediate Objective 2.2.1.
♦ Process of harmonisation of Cyprus Customs and Excise legislation began.
♦ Development of the operational capacity of the Department initiated.

Immediate Objective 2.2.2.
♦ More effective illicit trade control
♦ Combating of illicit traffic of narcotic drugs, nuclear waste
♦ Improvement of enforcement and surveillance methods
♦ Adoption of simplified procedures

Immediate Objective 2.2.3.
♦ First stage of ASYCUDA++ installation began
♦ Drafting of harmonised legal instruments re declaration processing, electronic transfer of data, safety of data and use of internet
♦ Plans to strengthen the department’s capacity to combat fraud through application of risk management process

Immediate Objective 2.2.4.
To begin the process of
♦ Effective implementation of audit controls and risk management – reinforcement of internal audit controls
♦ Safeguarding revenue in the most adequate way
♦ Improving efficiency and facilitate legitimate trade

Immediate Objective 2.2.5.
♦ Business Strategy drafted and partly implemented.
♦ HRM strategy published
♦ Managerial skills strategy developed
♦ Training policy developed, some training conducted.
3.4. Activities

Immediate Objective 2.2.1.
♦ Drafting and vetting of legal instruments began.
♦ Expert and technical assistance on drafting of excise legislation and on formulating policy, procedures and control mechanisms
♦ Expert and technical assistance for the organisation and conducting of seminars

Immediate Objective 2.2.2.
♦ Programme for the development of staff working at the entry and exit sites of the Republic in combating illicit trade including drugs through training, technical assistance, comparative studies etc.
♦ Comparative studies and technical assistance in the implementation of the Acquis in areas such as free zones, warehouses, control of excisable goods etc.

Immediate Objective 2.2.3.
The following projects will be initiated during current year
♦ Expert assistance on EU procedures re the business plan for ASYCUDA++ project
♦ Expert assistance for development of risk management system and establishment of risk/trade profiles.
♦ Expert assistance to implement audit programmes re warehouses/traders.
♦ Expert assistance for the development of a Central Intelligence System (CIS)
♦ Training to be provided for above

Immediate Objective 2.2.4.
The following projects will be initiated during current year
♦ Expert assistance to advise on technical issues and assist in identifying risk areas
♦ Training to acquire necessary skills to use effectively commercial systems
♦ Training in application of audit based controls
♦ Training/study visits to member states to gain skills re potential areas of computer and/or accountancy fraud and types of management accounts.

Immediate Objective 2.2.5.
♦ Expert assistance to run workshop and assist in drafting business strategy
♦ Expert assistance on designing and developing a job specification system, a staff appraisal policy, a performance management system etc.
♦ Expert assistance on identifying and developing managerial skills
♦ Expert assistance on formulating training policy
♦ Training for above will be initiated.

4. INSTITUTIONAL FRAMEWORK

The Customs and Excise Department falls within the domain of the Ministry of Finance and has been in existence since 1879, the first full year of British rule in Cyprus, after the Ottoman Empire ceded the island to the British in 1878.
**Functions of the Customs & Excise Department**

The Department of Customs & Excise identified six major goals which relate to the Department’s major responsibilities and functions. These major goals consist of:

1. the imposition and collection of import duties, excise duties and value added tax on all imported goods as well as the excise duties imposed on the locally produced goods like hydrocarbon oils, spirits, soft drinks, beer and tobacco products.

2. the imposition and collection of the temporary Refugee’s Levy on all imported goods with the exemption of foodstuffs, pharmaceuticals and pesticides.

3. the implementation of incentives granted by the Government for the development of basic sectors of the economy i.e. relief from duties and taxes, refund of duties and taxes etc.

4. the implementation of controls relating to import and export licensing, certain aspects of exchange control, the enforcement of a number of prohibitions and restrictions of imports and exports prescribed in laws administered by other Ministries or Departments and certain Authorities.

5. the prevention and repression of drug abuse and smuggling in general.

6. the preparation of statistical information related to the activities of the Department i.e. analysis of revenue, volume of imports, exports etc.

**Structure of the Department**

The Department is administered from the Headquarters Office at Nicosia by the Director of Customs and Excise who is assisted by administrative and technical staff.

The Customs Headquarters is entrusted with the policy making and the administration of the technical operations of the Department. The Headquarters consists of the following sections:

- EU Section
- Administration
- International Relations
- Training of Personnel
- Investigation
- Legal Matters
- Valuation
- Classification
- Reliefs
- Temporary Importation
- Internal Audit
- Computer Service
- Registry

The Department established its own unit for EU matters arising from the Screening process. A number of legal instruments have been drafted and submitted to the Law Office of the Republic for legal vetting while others such as the Excise legislation have not yet been prepared and expert assistance will be required.

The District Customs Stations of Limassol, Larnaca, Nicosia and Paphos (functioning under the supervision of the Senior Customs & Excise of Limassol station) operate under the direction of the Customs Headquarters in Nicosia. They also request authorisation in various matters exceeding their competence.

The function of the District Officers is primarily revenue collection and enforcement of various laws in relation to the importation and exportation of goods as well as passengers’ traffic. They also perform other functions such as revenue supervision of breweries, tobacco factories, hydrocarbon oil installations and other excisable activities as well as visits to the manufacturers’ premises of finished goods eligible for drawback.

Typically a Customs Station/District Office consists of the following sections:

- Passing
- Cashiering
- Examination
- Stores
- Bonded warehouses
- Exports
- Excise
- Preventive
Service, Parcel Post, Refunds and Drawbacks, Temporary Importation and Assessment of the value of motor-vehicles, Republic’s Warehouse and Registry.

The structure of the Department as well as the structure of the District Customs Stations (Regional Offices) are given in Appendices II and III respectively.

**Inspection of Customs Activities**

The activities of the Department are monitored and checked by staff both at Customs Headquarters and District Stations mainly through internal audit sections.

External departmental inspection is also carried out by the office of the Auditor General who reports directly to the President. The inspections are carried out (designed) to ensure that there are no irregularities and that the department is offering an efficient and effective service.

The Department of Customs and Excise is one of the departments, which function under the directions of the Ministry of Finance. The VAT Service functions under the Director of Customs and Excise in his role as VAT Commissioner.

The Planning Bureau co-ordinates the accession process and is responsible for relations with the European Union.

The Department also performs a variety of agency work for other government departments.
5. **Detailed Budget (Million Euro)**

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>Commission support</th>
<th>Total Commission support (I+IB)</th>
<th>National co-financing</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Development and implementation of legislation, supporting control regimes and trade facilitation measures</td>
<td>0</td>
<td>0.75</td>
<td>0.55</td>
<td>1.3</td>
</tr>
<tr>
<td>2. Development of Administrative Capacity</td>
<td>0</td>
<td>0.25</td>
<td>0.45</td>
<td>0.7</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>0</strong></td>
<td><strong>1.0</strong></td>
<td><strong>1.0</strong></td>
<td><strong>2.0</strong></td>
</tr>
</tbody>
</table>

(*) In relation to infrastructure, equipment, software, related developments, installation, testing and documentation
(**) In relation to changes in management, procedures, legislation, enforcement, training and general activities and services as result of investments
(***) In relation to the running costs of the project, the infrastructure, the purchase of computer hardware and other equipment etc.

6. **Implementation arrangements**

The programme will be implemented in a decentralised manner according to the procedures established by the Commission.

7. **Implementation Schedule**

7.1. **Start of tendering:** November 2000.

7.2. **Start of project activity:** March 2001.

7.3. **Project completion:** December 2002.

8. **Equal Opportunity**

Article 28 of the Constitution safeguards the right of all persons to equality before the law, the administration and justice and of equal protection thereof and treatment thereby. Any direct or indirect discrimination against any person on the grounds, inter alia, of his sex, is prohibited.

Furthermore, the prevailing legislation with respect to equality of treatment for men and women is partly in conformity with the Acquis Communautaire. The following laws currently in force cover equality issues: the Equal Pay between Men and Women for Work of Equal Value Law (Law 158/89), the Protection of Maternity Law of 1997 (Law 100(I)/97), the Termination of Employment Law 1967 (Law 24/67) as amended, and the Commissioner for Administration Law 1991 (Law 3/91) as amended. Cyprus has ratified
by Law 39/62 the European Convention for the Protection of Human Rights and Fundamental Freedoms. Various international Conventions, which guarantee equal rights between men and women, have also been ratified.

Harmonised legislation is under preparation and full compliance with the acquis communautaire will be achieved gradually by 1.1.2003.

The Department of Customs and Excise which is the implementing agency for this project is an equal opportunity employer. Its human resources in terms of customs personnel comprise of 217 men and 69 women. The Acting Director of the Department and VAT Commissioner is a woman. The total number of the personnel employed by the Customs and Excise is 428 consisting of 315 (74 %) men and 113 (26 %) women.

The Cyprus agencies involved in this project are equal opportunities employers.

9. CONDITIONALITY AND SEQUENCING:

EU financing is granted provided that the necessary national co-financing will be provided from budgetary resources of the Government of the Republic of Cyprus.

If the conditions are not in place for decentralisation (adequate structures as per the Commission “Guidance note on Cyprus and Malta” not in place or operational, Memorandum of Understanding on the establishment of the National Fund not yet signed), the Commission reserves the right to implement the programme in a centralised manner.

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ANNEXES
1. Logical framework matrix in standard format
2. Detailed implementation time chart
3. Contracting and disbursement schedule by quarter for full duration of programme.
## LOGFRAME PLANNING MATRIX

| Programme name: National Programme Cyprus 2000 and number: CY0001 | Date of drafting: 7 March 2000 |
| Contracting period expires: 31 December 2002 | Disbursement period expires: 31 December 2003 |

### MEASURES TO DEVELOP THE OPERATIONAL CAPACITY OF THE DEPARTMENT OF CUSTOMS & EXCISE TO APPLY THE ACQUIS

| Project Number CY0001.02.01 | Total Budget: 2.0 MEURO | Commission contribution: 1.0 MEURO |

<table>
<thead>
<tr>
<th>Wider Objective</th>
<th>Indicators of Achievement*</th>
<th>How, When and By Whom Indicators Will Be Measured</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>To strengthen the legal, administrative and operational capacity of the Department of Customs and Excise through the development and implementation of legislation, and the establishment of robust operational policies, systems and procedures to support it.</td>
<td>Achievement of full harmonisation at the time of accession.</td>
<td>Ministry of Finance, and the European Commission at the end of the project.</td>
<td>♦ Political commitment to EU continued. ♦ National legislation in line with EU legislation and best practice enacted. ♦ Adequate resource availability. ♦ Absorption capacity of the Department to ensure sustainability.</td>
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</table>

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<thead>
<tr>
<th>Immediate Objectives</th>
<th>Indicators of Achievement*</th>
<th>How, When and By Whom Indicators Will Be Measured</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. To harmonise customs and excise legislation with the Acquis Communautaire and develop the operational capacity of the Department to implement and enforce it.</td>
<td>♦ Administration’s legal base and competencies to achieve harmonisation reviewed and adjusted. ♦ New primary and secondary excise legislation drafted ♦ Training needs assessed</td>
<td>Ministry of Finance, EC Delegation, PSC and PAU during implementation of the project.</td>
<td>♦ Political commitment to EU continued. ♦ Policy change decision within the domain of the Ministry of Finance.</td>
</tr>
<tr>
<td>Immediate Objectives</td>
<td>Indicators of Achievement*</td>
<td>How, When and By Whom Indicators Will Be Measured</td>
<td>Assumptions and Risks</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------------------</td>
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</tbody>
</table>
| 2. To develop and strengthen operational capacity in the key functional areas of border control, customs and tax warehouses, post-clearance audit, procedures with economic impact, fraud investigation and enforcement, and trade facilitation. | ♦ Control regimes each key area devised and process of implementation began  
♦ Training needs assessed  
♦ Part of Training Programme delivered | Ministry of Finance, EC Delegation, PSC and PAU during implementation of the project. | ♦ Full commitment of management and staff.  
♦ Clear channels of communication.  
♦ Close co-ordination with other departments and agencies. |
| 3. To automate the processing of customs import and export declarations.             | ♦ ASYCUDA++ partly installed  
♦ Process of harmonisation of legislation re declaration processing, electronic transfer of data, safety of data and use of internet began  
♦ Strengthened capacity to combat fraud through Application of risk management process.  
♦ A business support systems plan for existing systems and Asycuda++ partly developed and implemented.  
  • Needs for other systems assessed and action plan produced.  
  • Train user.  
  • Risk management programme partly developed. | Ministry of Finance, EC Delegation, PSC and PAU during implementation of the project. | ♦ Full commitment of management and staff.  
♦ Timely development and procurement  
♦ Effective support by the Department of Information Technology Services.  
♦ Adequate resource availability.  
♦ Ensure compatibility with computerised networks. |
<table>
<thead>
<tr>
<th>Immediate Objectives</th>
<th>Indicators of Achievement*</th>
<th>How, When and By Whom Indicators Will Be Measured</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>4. To develop and strengthen the organisational systems for business planning, management, and staff training and development.</td>
<td>♦ An overall business strategy for the administration developed and published. ♦ HRM strategy developed, related to business strategy and published. System of job specifications designed. ♦ Policy on optimum staff deployment developed. ♦ Policy for auditing job structures, loadings and gradings developed. ♦ Working conditions and safety policy developed ♦ Managerial skills and abilities developed. ♦ Management development programme partly delivered ♦ Implementation plan for all in place.</td>
<td>Ministry of Finance, EC Delegation, PSC and PAU during implementation of the project.</td>
<td>♦ Full commitment of management and staff. ♦ Adequate resource availability.</td>
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</tbody>
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<thead>
<tr>
<th>Immediate Objectives</th>
<th>Indicators of Achievement*</th>
<th>How, When and By Whom Indicators Will Be Measured</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>♦ Systematic training policies, systems and procedures developed ♦ Training strategy and needs identified. ♦ Relevant skills developed ♦ Needs analysis completed ♦ Trainers retrained</td>
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<tr>
<td>Outputs</td>
<td>Indicators of Achievement*</td>
<td>How, When and By Whom Indicators Will Be Measured</td>
<td>Assumptions and Risks</td>
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</tr>
<tr>
<td>1. Development and Implementation of Legislation, Supporting Control Regimes and Trade Facilitation Measures</td>
<td>♦ Implementation of harmonised customs and excise legislation  ♦ Development, enhancement and implementation of relevant control regimes  ♦ Improvement of controls at the external border of illicit trade and traffic  ♦ Improvement of anti-smuggling enforcement and surveillance methods</td>
<td>♦ Harmonised customs and excise legislation drafted  ♦ Some enhanced relevant control regimes implemented  ♦ Controls at the external border of illicit trade and traffic improved  ♦ Some improved anti-smuggling enforcement and surveillance methods in place</td>
<td>♦ Full commitment of management and staff.  ♦ Timely availability of adequate resources.  ♦ Effective monitoring of progress reports.  ♦ Ability to select and recruit appropriate consultants.</td>
</tr>
<tr>
<td>Outputs</td>
<td>Indicators of Achievement*</td>
<td>How, When and By Whom Indicators Will Be Measured</td>
<td>Assumptions and Risks</td>
</tr>
<tr>
<td>♦ Adoption of simplified procedures  ♦ Computerised import and export declaration processing  ♦ Intelligence-based risk management and assessment systems to support control activity</td>
<td>♦ Some simplified procedures in place  ♦ Computerised import and export declaration processing initiated.  ♦ Intelligence-based risk management and assessment systems to support control activity planning initiated.</td>
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<tr>
<td>♦ External and public relations policies developed</td>
<td>♦ Developed external and public relations policies partly operational</td>
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<tr>
<td>II.  <em>Development of Organisational Systems for Business Planning, Management, and Training of Personnel</em></td>
<td>♦ Business planning systems developed and in place ♦ Personnel and training policies developed and in place ♦ Training of managers and staff in new systems and procedures initiated</td>
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<tr>
<td>♦ Development of business planning systems ♦ Development of Personnel and training policies ♦ New systems and procedures for managers and staff</td>
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<thead>
<tr>
<th><strong>Inputs</strong></th>
<th><strong>Indicators of Achievement</strong>*</th>
<th><strong>How, When and By Whom Indicators Will Be Measured</strong></th>
<th><strong>Assumptions and Risks</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial: National Budget: 1 MEURO EU contribution: 1 MEURO</td>
<td>National budget approved Financing memorandum approved</td>
<td>Ministry of Finance and the Commission Services</td>
<td>Support from Ministry of Finance Full commitment of management and staff Budgets approved and available</td>
</tr>
</tbody>
</table>

* Must be **quantified** and **measurable**
## SUMMARY DETAILED TIME IMPLEMENTATION CHART FOR THE PROJECT

**Title:** Measures to develop the operational capacity of the Department of Customs and Excise (CY0001.02.01)

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
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<tbody>
<tr>
<td>1. Development and implementation of legislation, supporting control regimes and trade facilitation measures</td>
<td>D</td>
<td>D</td>
<td>C</td>
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<tr>
<td>2. Development of Administrative Capacity</td>
<td>D</td>
<td>D</td>
<td>C</td>
</tr>
</tbody>
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D = Design  
C = Contracting  
I = Implementation  
X = Closure
CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE OF EU FUNDING

Title: Measures to develop the operational capacity of the Department of Customs & Excise (CY0001.02.01)

All figures in million Euro

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<tbody>
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<td>CONTRACTED</td>
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<tr>
<td>DISBURSEMENT</td>
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<td>0.15</td>
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<td>0.50</td>
<td>0.65</td>
<td>0.80</td>
<td>0.90</td>
<td>0.95</td>
<td>1.00</td>
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