SUMMARY PROJECT FICHE

1. **BASIC INFORMATION**

1.1 Désirée Number:

1.2 Title: Measures to Further Develop the Operational Capacity of the Department of Customs & Excise

1.3 Sector: Indirect Taxation - Excise
   Customs Union - Customs

1.4 Location: Ministry of Finance/Department of Customs and Excise - Customs Headquarters, Nicosia, Cyprus

2. **OBJECTIVES**

2.1 **Overall Objective(s)**

To strengthen the administrative and operational capacity of the Department of Customs and Excise in the areas of excise control, control of customs duty suspensions and reliefs, and the application of simplified customs procedures, in line with the EU Acquis and the European Union good practice.

2.2 **Project Purpose**

To develop and implement effective control policies, systems and practices for all excise products and all customs duty suspension and relief regimes, to develop and implement simplified customs procedures, in line with EU requirements and international obligations, and to educate the trade community in the new procedures.

2.3 **Accession Partnership and NPAA priorities**

**Accession Partnership**

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**

*Taxation (Chapter 10):*
- Abolish all excise duty discrimination against imports from the EU.
- Introduce a tax warehouse system and related movement procedures for excisable goods.

*Customs Union (Chapter 25):*
- Adopt a pre-accession strategy for the harmonisation of the Cyprus Customs legislation.
- Accelerate computerisation and business support processes.
- Strengthen the enforcement of intellectual property rights.
- Strengthen the team set up to combat money laundering by increasing its analysis function regarding data on suspicious transactions.
- Reinforce the internal audit section so as to fulfil requirements of EU audit/control functions.

**Medium Term Priorities**

- Accelerate legislative harmonisation including the introduction of customs regimes with economic impact, simplified procedures, systems of tariff suspensions, quotas and ceilings.
- Strengthen the institutional and administrative capacity.
- Continue to combat fraud and corruption.

**NPAA**

**Short Term Priorities**

*Customs Union*

Enhancement of the administrative capacity of the Department of Customs and Excise through technical assistance and training of the staff.
Medium Term Priorities

Customs Union and Taxation:
Fully computerise the department and bring the staff to the required level of competence through technical assistance and training.

Financial Control:
Upgrade the existing system of controls through:
- the use of post-clearance, audit-based control of commercial premises and records;
- the use of risk assessment techniques; and
- reinforcing the internal audit section of the department.

Company Law:
Enhance the administrative capacity of the Department of Customs and Excise to apply and enforce the Acquis in the field of intellectual property rights.

2.4 Contribution to National Development Plan
N/A

2.5 Cross Border Impact
N/A

3. DESCRIPTION

3.1. Background and justification

Cyprus Screening Priorities
The screening process on Customs Union identified the following main areas for attention:

a) amendments to the customs and excise primary legislation;
b) the introduction and implementation of customs procedures with economic impact and other customs procedures not existing at the moment;
c) the adoption and implementation of a 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:
- Free zones
- Counterfeit and pirated goods
- Justice and home affairs
- 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, 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 alignment with the EU Acquis.

Cyprus Position Paper
The text used below is an extract from the Cyprus position paper regarding the Customs and Excise 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”.

The Customs and Excise administration has recently, at the request of the Commission Services, used the ‘Customs Blueprints’ as the basis for a thorough examination of the gaps between the existing situation in each functional area, and the Blueprint standards. This process of ‘Gap Analysis’, followed by a rigorous ‘Needs Analysis’, has identified a number of priority areas for attention, including those corresponding to the areas identified through the screening exercise. Accordingly, it is the intention of this project to meet the priority needs identified through screening, in the position paper and from the application of the Blueprints.

### 3.2 Linked activities

This project is closely linked to, and is designed to follow-up, the Phare 2000 project ‘Measures to Develop the Capacity of the Cyprus Customs and Excise Department to Apply the Acquis Communautaire’. That project provides technical assistance with, inter alia, the preparation and quality-assurance of Acquis-compatible legislation for excise and customs reliefs. This project provides assistance with the essential next steps of developing control policies, systems and practices to support the implementation of the new legislation; training managers and staff in the revised controls; and educating the trade community.

Additionally, the Cyprus Government intends to fund a contract between the Customs and Excise Department and a suitable external supplier for the purchase, installation and testing of a system for automated declaration processing. This activity is also linked to this project by virtue of the interfaces between the processing of customs imports and exports, and subsequent or prior movements to/from excise or customs relief regimes.

### 3.3 Results

- New/enhanced control regimes for all excise products;
- New/enhanced control regimes for all customs relief and suspension regimes;
- Range of essential simplified procedures;
- Training programmes for managers and staff in new systems and procedures;
- Staff instructions;
- Guidelines for trade community in the new procedures

### 3.4 Activities

In order to meet its overall objective and to produce the results indicated in section 3.3, this project will be designed to bring the Customs and Excise Department’s controls in the designated areas into line with those in the EU, by the introduction of new control practices, and training of those responsible for applying them.

The project will therefore provide:

- Short-term technical assistance with formulating policy, systems and control mechanisms for a variety of control regimes (imports, exports, deliveries, tax/bonded warehousing, other duty reliefs and suspensions, drawback etc.) for the whole range of excise products (hydrocarbon oils, tobacco, alcoholic drinks, etc.);
- Comparative studies and technical assistance with formulating policy, systems and control mechanisms for a variety of customs duty relief and suspension regimes (inward processing relief, outward processing relief, warehousing, free zones, temporary importation, etc.);
- Comparative studies and technical assistance in the area of simplified customs procedures;
- Training in each designated area for the managers and staff responsible for applying the controls;
- Production of technical instructions for use by managers and staff after their training;
- Production and publication of guidance for the trade community in the new procedures.

### 4. Institutional Framework

The Customs and Excise Department falls within the domain of the Ministry of Finance and has been in existence since 1879.

**Functions of the Customs & Excise Department**

The Department of Customs & Excise’s principal responsibilities are:
the imposition and collection of import duties, excise duties and value added tax on all imported goods, and the imposition and collection of excise duties on locally produced goods such as hydrocarbon oils, spirits, soft drinks, beer and tobacco products;
- the prevention and detection of smuggling, particularly narcotics;
- the administration of various reliefs from duties and taxes;
- the control of import and export licensing and certain aspects of exchange control, and the enforcement of prohibitions and restrictions on imports and exports prescribed in laws administered by other Cyprus ministries and authorities; and
- the preparation and analysis of revenue and trade statistics.

Structure and Organisation of the Department
The Department is administered from the Headquarters Office at Nicosia by the Director of Customs and Excise who is assisted by two Chief Customs Officers, seven Senior Customs Officers – of which four are stationed at headquarters – and a number of other managerial and technical staff. Customs Headquarters is responsible for policy making and the management of the technical operations of the Department. It consists of the following sections: EU Matters, Administration, International Relations, Training, Investigation, Legal Matters, Valuation, Classification, Reliefs, Temporary Importation, Internal Audit, Computer Service and Registry.

At the regional level, there are four customs stations - at Limassol, Larnaca, Nicosia and Paphos - which operate under the direction of Customs Headquarters. These regional offices typically comprise the following sections: Passing, Cashier, Examination, Stores, Bonded Warehouses, Exports, Excise, Preventive Service, Parcel Post, Refunds and Drawbacks, Temporary Importation and Valuation, Republic’s Warehouse and Registry.

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 passenger 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.

Management 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 designed to ensure that there are no irregularities and that the Department is offering an efficient and effective service.

5. DETAILED BUDGET

<table>
<thead>
<tr>
<th>Component</th>
<th>Investment (1)</th>
<th>Institution Building (2)</th>
<th>Total EU financing (I+IB)</th>
<th>National co-financing (3)</th>
<th>IFI</th>
<th>TOTAL</th>
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<td>0.50</td>
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</table>

(1) - In relation to infrastructure, equipment, software, related developments, installation, testing and documentation.
(2) - In relation to changes in management, procedures, legislation, enforcement, training and general activities and services as result of investments.
(3) - In relation to computer hardware.

6. IMPLEMENTATION ARRANGEMENTS:

6.1 Implementing Agency
The Cyprus Department of Customs and Excise will be Implementing Agency for this project. The person responsible will be the Director of the Department of Customs and Excise: Mrs. G Emilianidou, Director of Customs & Excise and VAT Commissioner, Customs Headquarters, 29 Katsonis Street, Ayioi Omoloyitae, 1440 Nicosia, Cyprus; Tel (+357-2) 865201 / Fax (+357-2) 305151.

The Department of Customs and Excise will establish a special organisational structure for the technical management and monitoring of the project which comprises a Project Steering Committee (PSC) and a Departmental Project Implementation Team (DPIT). The PSC will comprise representatives of the Ministry of Finance, and the Customs and Excise Department, and will monitor, supervise and co-ordinate the overall
progress and implementation of the project. The PSC will provide guidance for the different components of
the project, define priorities, approve and monitor budgets, and approve the results of activities. The DPIT
will be a team within the Customs and Excise Department which will be responsible for the project
implementation and will carry out the day-to-day management of the project. Its role will be to administer
and resolve all issues concerning the management of the project, including identification, specification and
planning of tasks, preparation of Terms of Reference, participation in tendering, monitoring and evaluation
of activities, and reporting. The DPIT will report to the PSC.

6.2 Twinning
N/A

6.3 Non-standard aspects
The project will be managed according to the Decentralised Implementation System (DIS) rules.

6.4 Contracts
This is an integrated, sequential, multi-annual project which requires continuity and consistency of
assistance from start-up to completion. The strong inter-relationships between project activities also require
a unified and consistent approach.

In the light of these characteristics the preferred means of implementation is to engage a single contractor
capable of engaging short-term expertise quickly and flexibly and of meeting the precise specification of
each project activity, as defined in advance by the Departmental Project Implementation Team (DPIT). In
addition, this project is designed to build upon foundations established by the Phare 2000 project ‘Measures
to Develop the Capacity of the Cyprus Customs and Excise Department to Apply the Acquis Communautaire’,
and to interface with its activities. A similar commercial approach to the delivery of both
projects is therefore highly desirable
Accordingly a single, commercial contract arrangement will maximise the effectiveness of the proposed
project, produce economies of scale, ensure a greater level of consistency and co-ordination between various
project activities, promote effective interfaces with the Phare 2000 project and reduce the administrative
burden.

7. IMPLEMENTATION SCHEDULE

7.2 Start of project activity: February 2002.
7.3 Project completion: May 2003.

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 in Cyprus cover equality
issues: the Equal Pay between Men and Women for Work of Equal Value Law (158/89), the Protection of
Maternity Law (100(I)/97), the Termination of Employment Law (24/67) as amended, and the
Commissioner for Administration 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 EU Acquis 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 Director of the Department and VAT Commissioner is a woman. The total number of
personnel employed by the Customs and Excise is 428 consisting of 315 (74%) men and 113 (26%) women.

The other Cyprus agencies involved in this project are also equal opportunities employers.
9. **ENVIRONMENT**

N/A

10. **RATES OF RETURN**

N/A

11. **INVESTMENT CRITERIA**

N/A

12. **CONDITIONALITY AND SEQUENCING**

N/A

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**ANNEXES**

1. Logical framework matrix in standard format.

2. Detailed implementation time chart in standard format.

3. Contracting and disbursement schedule by quarter for full duration of programme.
## LOGFRAME PLANNING MATRIX FOR

**PROJECT:**
**FURTHER MEASURES TO DEVELOP THE OPERATIONAL CAPACITY OF THE CYPRUS CUSTOMS & EXCISE DEPARTMENT**

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>To strengthen the administrative and operational capacity of the Department of Customs and Excise in the areas of excise control, control of customs duty suspensions and reliefs, and the application of simplified customs procedures, in line with the EU Acquis and the EU good practice.</td>
<td>Full preparation of Cyprus at the time of accession; European Commission’s Opinion on the Status of Preparation of Cyprus for Accession. Screening reports.</td>
<td>Department mandated to plan for and commit to all project actions. Project reflects objectives of business strategy and plans. All project personnel selected on the basis of knowledge, skills, experience and willingness to participate. Full commitment of management and staff.</td>
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</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| To develop and implement effective control policies, systems and practices for all excise products, all customs duty suspension and relief regimes, to develop and implement simplified customs procedures, in line with EU requirements and international obligations, and to educate the trade community in the new procedures. | • Controls in place.  
• Instructions drafted.  
• Trade informed. | Regular reports of the Ministry of Finance and the Commission’s services. Trade and Customs statistics. Trade publications. | Department mandated to plan for and commit to all project actions. Project reflects objectives of business strategy and plans. All project personnel selected on the basis of knowledge, skills, experience and willingness to participate. Full commitment of management and staff. |

<table>
<thead>
<tr>
<th>Results</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
</table>
| • New/enhanced control regimes for all excise products;  
• New/enhanced control regimes for all customs relief and suspension regimes;  
• Range of essential simplified procedures;  
• Training programmes for managers and staff in new systems and procedures;  
• Staff instructions;  
• Guidelines for trade community in the new procedures. | • New excise control regimes developed, enhanced & implemented;  
• Control regimes developed, enhanced and implemented for all customs relief and suspension regimes;  
• Range of essential simplified procedures adopted and in use;  
• Managers and staff fully trained staff in new systems and procedures;  
• Staff instructions produced and in use;  
• Trade guidance produced and published. | Published implementing regulations and staff instructions. Training materials. Evaluation questionnaires fulfilled by the trained personnel. Published guidelines for trade community. | Full commitment of management and staff. Timely availability of adequate resources. |
### Activities
- Formulating policy, systems and control mechanisms for a variety of control regimes (imports, exports, deliveries, tax/bonded warehousing, other duty reliefs and suspensions, drawback, etc) for the whole range of excise products;
- Formulating policy, systems and control mechanisms for a variety of customs duty relief and suspension regimes;
- Developing simplified customs procedures;
- Training in each designated area for the managers and staff responsible for applying the controls;
- Production of technical instructions for use by managers and staff;
- Production and publication of guidance for the trade community.

### Means
- Technical assistance contract, awarded as result of open tender procedure.
- Classical technical assistance, to include – inter alia and as applicable – training, consultancy, and study visits.

### Assumptions
- Support from Ministry of Finance.
- Full commitment of management and staff.
- Budgets approved and available.
- Timely availability of adequate resources.
- Effective monitoring of progress.
- Ability to select and recruit appropriate experts.
- All parties held accountable for their actions.

### Preconditions
- Continued political commitment to EU accession.
- National legislation in line with EU legislation and best practice enacted.
- Adequate resource availability.
# Detailed Time Implementation Chart for the Project

**Title:** Further Measures to Develop the Operational Capacity of the Cyprus Customs and Excise Department

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<th>COMPONENT</th>
<th>2001</th>
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<thead>
<tr>
<th></th>
<th>D = Design</th>
<th>C = Contracting</th>
<th>R = Review</th>
<th>I = Implementation</th>
<th>X = Closure</th>
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CUMULATIVE CONTRACTING AND DISBURSEMENT SCHEDULE

Title: **Further Measures to Develop the Operational Capacity of the Cyprus Customs and Excise Department**

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