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FES NEWS

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1. Cyprus Problem

During the month of December, efforts by the two communities and the UN intensified in order to reach a joint statement defining the basic parameters of a settlement, a precondition set by the Greek Cypriot side before the resumption of negotiations. Both sides exchanged draft proposals and worked towards safeguarding their interests while trying to meet the concerns of the other. By the end of the month, a breakthrough had not been achieved. This resulted in both sides reverting to the usual blame game, although Turkish and Greek Cypriot media reported that the two sides were only words away from bridging the gap.

The two sides appeared to have reached an impasse over the words “single sovereignty”. The Greek Cypriots insist on the inclusion of those two specific words in the joint declaration, which the Turkish Cypriots are refusing to accept. The terminology appears to have very different meanings to each side. The Greek Cypriots see the inclusion of “single sovereignty” as a guarantee that negotiations will not be geared towards a con-federal solution or to a solution which could lead to a possible future secession by the Turkish Cypriots. The Turkish Cypriots’ main concern appears to be ensuring political equality in any type of federation. They fear that after a solution their role will be downgraded in a federal Cyprus. Hence, there is the insistence on the inclusion of the term “residual powers” for the federated states.

On Friday 13, the UN Secretary General’s Special Adviser Alexander Downer while already driving towards the airport to depart for Christmas and New Year made a turnaround for a final round of negotiations. This took place after a week of continuous shuttling back and forth between the two sides in order to reach an agreement on the text of a joint declaration. On the same day the Cyprus problem was discussed between Greek Foreign Minister Evangelos Venizelos and his Turkish counterpart Ahmet Davutoglu during a meeting in Athens, just a few weeks before Greece takes over the helm of the EU presidency in January 2014, giving the country a particular role in the opening of any new chapters related to Turkey’s EU accession path. Davutoglu was also expected to arrive for a one day visit in the north of Cyprus on the 14th.

During his intensive diplomatic shuttling, Downer met with Davutoglu at the Turkish embassy in the north. This sparked a pronounced reaction by the Greek Cypriot side, as it appeared to upgrade the “TRNC”¹. Although

¹ The Turkish Republic of Northern Cyprus (TRNC) is only recognised by the Republic of Turkey. While for Turkey and the Turkish Cypriots, Dervis Eroglu serves as President of the TRNC, the international community considers him the communal leader of the Turkish Cypriots. As the government of the Republic of Cyprus remains internationally recognised as the government of the whole of the island, the entire island is now considered to be a member of the European Union. However, the *acquis communautaire* is suspended in northern Cyprus pending a political settlement to the Cyprus

Davutoglu was contacted previously by his US and British counterparts, John Kerry and William Hague respectively, Downer did not seem to be able to convince Dervish Eroglu to accept the idea of a single sovereignty. On the contrary, the Turkish Foreign Minister reinforced the insistence on a two state solution whereby each state had its sovereignty.

Without a joint declaration the start of negotiations is now postponed for at least mid-January, while the window of opportunity which existed for negotiations until March 2014 seems to dwindle. Municipal elections take place in Turkey in March, presidential elections in August 2014. Currently, Turkey is rocked by political unrest and instability as Prime Minister Erdogan and former members of his cabinet are confronted with a corruption scandal that has posed an unprecedented challenge to Erdogan's 11 year rule and the predominance of the AK Party (Justice and Development Party). The danger is that Erdogan will harden his position over Cyprus in order to consolidate his domestic support vis-à-vis the challengers from the Gülen movement as well as against the growing number of secular opponents. Moreover, any major Turkish concession or move in the Cyprus question has become less likely under these circumstances.

On December 18, President Anastasiades discussed during a telephone conference with UN

problem (see Protocol no. 10 of the Accession Treaty).

Secretary General Ban Ki-moon the developments over the joint statement, a move that was interpreted as sidelining Downer. On the December 19, Anastasiades briefed EU leaders about the latest developments in the Cyprus talks at a EU Summit in Brussels, during which EU-NATO relations were discussed. Currently, these relations are complicated by the political problems due to the Cyprus-Turkey dispute.

On another front, the Greek Cypriot and the Turkish Cypriot mayors of Famagusta, Alexis Galanos and Oktay Kayalp, issued a joint statement expressing their strong support for the immediate commencement of the process of returning the fenced-off area of Varosha to its lawful owners and inhabitants under the supervision and control of the UN.

According to the statement, Famagusta port should be opened to international maritime traffic under EU supervision, and the Famagusta walled city should be placed under UNESCO watch list for getting registered as one of World's Heritage Sites. Kayalp said the plan was to redesign the city and bring together all the people of Famagusta to envisage a common future. Galanos agreed with Kayalp and expressed the belief that the joint statement would give an impetus, create prospects and send a message against partition.

Furthermore, the Committee on Missing People (CMP) announced that it had identified the remains of 131 missing people for year 2013, 88 of which are Greek Cypriots and 43 Turkish

Cypriots. The CMP's task is to identify the remains of 2001 missing Cypriots during the years 1960 to 1974. So far 475 missing have been identified since the work commenced in 2006. This year's 131 identifications were a record compared to last year's 24. Still, 76% of the missing Greek Cypriots and 76% of the Turkish Cypriots remain unidentified

2. Hydrocarbons

In a conference held in Houston on December 18, Noble announced that there is evidence of approximately 3 billion barrels of gross "unrisked" oil potential in waters between Cyprus and Israel, with half of the amount believed to lie in Cyprus' block 12. "Unrisked" is industry jargon for a rough estimate of reserves that does not reflect probability of geologic success.

The company however quickly sought to manage expectations, reiterating that development of natural gas takes precedent and that the data so far is raw. In essence, Noble will not be in a position to assign any probability to the discovery of oil until 3D seismic data are completed by April or May, 2014. According to Noble Energy Senior Vice Chairman, Keith Elliot, a 20% chance of success would be the bare minimum for Noble to go ahead with oil prospecting.

Moreover, Noble outlined the three options for developing Cypriot gas with the top choice

being via an onshore LNG facility at Vasilikos, as long as additional resources are discovered in block 12 or other concessions, or if natural gas is pooled with the finds in the Israeli Leviathan field. It also referred for the first time to the possibility of developing Cypriot gas via pipeline, connecting to onshore facilities in Egypt, and to a floating LNG vessel.

Earlier in the month Noble's Israeli partners, Delek Drilling and Avner Oil Exploration, decreased Nobles estimations in the Aphrodite field from 5.2 to 4.1 tcf, due to reasons relayed to the estimated thickness of the target layer. Although the Israelis employ different probabilistic methodologies to the Americans, Noble has not disputed this latest estimate. It is generally acknowledged that 5,5 to 7 tcf are required to make an LNG terminal commercially viable.

Negotiations between the RoC and the Italian-South Korean consortium, ENI-KOGAS, on exploration concessions for offshore blocks 5 and 6 did not proceed as expected despite an interest showed in previous months. The consortium cited that these blocks lacked adequate data on natural gas prospects making investment more high risk for the consortium, due to Turkey's claims on those specific blocks.

On December 3, Energy minister Giorgos Lakkotrypīs and the chairman of Palestine's energy authority, Omar Kittaneh, signed a Memorandum of Understanding for dialogue and cooperation on energy related issues

between the two sides. It provides for the holding of meetings, exchange of information and staff and the realisation of joint training initiatives. The memorandum covers the exploration of opportunities for cooperation in the field of energy, notably in the sectors of electricity and renewable energy source. Furthermore, on December 12, Cyprus and Egypt signed an unitisation agreement on joint explorations of hydrocarbon reserves on the median line between the two countries' respective exclusive economic zones (EEZ). A unitization agreement ensures that if reserves are found in the median line between two countries a peaceful legal agreement exists stipulating how to manage those reserves. The agreement was a result of improved relations between the two countries, following the removal of the Egyptian President Mohammed Morsi by the Egyptian army.

The government is considering to purchase two Israeli naval crafts worth €100 million that are to be used primarily for patrolling waters in Cyprus's (EEZ).

3. Greek Cypriots

Economic Developments

Following November's positive assessment of the second quarterly review of Cyprus' macroeconomic adjustment programme by the

Troika², the Eurogroup approved on December 9 the roadmap for the privatisation of semi-governmental organisations for the years 2016-2018. Approval of the roadmap was set as a precondition for the release of the third tranche of €186 million for Cyprus.

In particular, the European Stability Mechanism (ESM) approved the disbursement of €100 million to Cyprus while the remaining €86 million were provided by the International Monetary Fund (IMF). So far, Cyprus has received €4.7 billion from the €10 billion in financial assistance agreed for its bailout program. The privatisation plan, which was unanimously approved by the cabinet, aims at securing €1.4 billion in order to reduce the islands public dept. Based on the roadmap, the first organisation slated for privatisation is the state's telecommunications company CyTA, planned for December 2014, followed by the Electricity Authority (EAC) in December 2015. The ports authority will remain a state organisation to supervise the ports. The management of the ports commercial activities will be transferred to the private sector. Meanwhile, unions expressed their opposition to the plan and staged strikes, threatening the government to escalate the situation, if it went through with the plan.

The 2014 budget, the first since Cyprus was bailed out by international lenders, was

² The Troika is comprised by the International Monetary Fund (IMF), the European Commission and the European Central Bank (ECB).

approved by the House. Compared to 2013, it provides for a 10% cut in expenditures (excluding interest, repayments and reserves). The government expects to raise €7.9 billion in revenue and expenditure of €7.7 billion. The economy is expected to shrink by 3.9% and the unemployment rate to reach 19.5%. The public deficit is estimated to account for 5.4 % of the Gross Domestic Product (GDP) while the debt to GDP ratio shoots up to 123% compared to 114%, in 2013.

The Central Bank (CBC) announced strict lending criteria for banking institutions according to which the value of collateral would no longer be the main criterion for providing loans, but the applicant's ability to repay loans by providing all necessary documentation.

Additionally, President Anastasiades announced on December 11 a series of measures worth €340 million to tackle unemployment and support businesses. The measures aim at incorporating up to 7.500 unemployed in the economy and providing support to 2000 vulnerable families and a substantial number of small and medium sized enterprises (SME's). The measures fall under four categories, SMEs, hotels, youth unemployment and social cohesion and are expected to be launched in January, 2014. The European Investment Bank (EIB) will additionally be implementing two innovative schemes worth €150 million. The first scheme concerns a €50 million facility geared towards supporting foreign trade activities of Cypriot SME's. The EIB will also grant Cyprus a

€100 million loan in order to establish a fund mechanism under which state and commercial banks will lend on a risk sharing basis to support the investment and capital needs of SME's.

The Cypriot economy is not expected to return to growth before 2017 according to a winter Eurozone forecast conducted by professional services Ernst and Young, while unemployment is expected to rise to 25%. The number of registered unemployed came to 50.196 in November according to the Statistical Service, a reduction of 825 people compared to October. Third quarter unemployment reached 16.2% compared to 15.5% in the previous quarter and 12.1% of the same quarter in 2012. In December the number of registered unemployed persons reached 50.467. The average number of the registered unemployed for the year 2013 reached 46.765 compared to 36.362 in 2012 recording an increase of 28.6%. According to Eurostat the biggest annual increase was recorded in Cyprus from 13.3% to 17.3% by November and the total number of unemployed during the third quarter of the year reached 72.660. Eurostat data is used as the official unemployment figures within the European Union. It is based on a wider definition of unemployment than the ones used by the Statistical Service of the Republic of Cyprus and therefore considerably higher.

For the first time in 50 years Cyprus reported an annual rate deflation of -0.4% in 2013. In December deflation of -2.3% was reported compared to -2.1% in November. The Consumer

Price Index (CPI) for December 2013 fell to 117.49 units compared to 117.83 in November.

The number of applications for residency and citizenship by third-country nationals has increased considerably. In order to apply for a permanent residence and citizenship the purchase of a private home or apartments worth at least €300,000 and deposits of minimum €30,000 in a local bank for three years are amongst the basic conditions. In December the sums that were injected into the Cyprus economy as part of the land-for-residence scheme stood at almost €300 million. The majority of applicants are Chinese and Russian nationals. In October the numbers of Chinese applications stood at 400. These figures are part of the overall rise in direct foreign investment (FDI). Altogether, FDI has brought in around €500m. The development is particularly important for the Cyprus building sector which employs around 40,000 people and accounts for 16% of the country's GDP.

Domestic Developments

On December 2, Nicolas Papadopoulos, the son of late President Tassos Papadopoulos, won the battle for leadership of DIKO, the coalition partner of DISY and EVROKO. With a tight victory of 51.12% of the votes, Papadopoulos won against the previous leader Marios Garoyian, who received 48.88%. There were some roughly 38,000 DIKO members who were eligible to vote, of whom finally 24,734 cast their vote.

Garoyian's electoral team questioned the results, claiming that about 400 members had not been included in the party's registrar and could therefore not vote. Prior to the DIKO elections it was suggested that in the case of Garoyian's victory the party might have split and a new party been formed by the renegades led by Papadopoulos together with disappointed EDEK members and parts of the Greens and Lillikas' Citizens Alliance.

The result of the election could prove difficult for the coalition government since Papadopoulos is an outspoken critic of Anastasiades. He even resigned from his position as vice-president of DIKO when the party decided to support Anastasiades in the last elections. During the presidential election campaign last February Papadopoulos showed open support for the EDEK-backed candidate Giorgios Lillikas, whereas Garoyian brought the majority of party members behind him, supporting Anastasiades. Compared to Garoyian, Papadopoulos takes an even tougher stance regarding the Cyprus problem. In 2004 he was against the Annan Plan (and so was DIKO led by Garoyian), whereas DISY was in favour of the Plan. He also criticised President Christofias' concessions to the Turkish-Cypriot side.

Some analysts expect that confronted with the economic problems and a number of outstanding decisions to be decided in Parliament, Anastasiades will heed way to Papadopoulos in order to keep the support of DIKO. In turn, he

might take a more uncompromising stance in the Cyprus question.

In the meantime, Papadopoulos and Lillikas met on December 18, dwelling on a future collaboration.

Foreign Policy

During December the port of Limassol was called on by a number of vessels in connection with the destruction of Syrian chemical weapons. The Russian heavy nuclear-powered missile cruiser Smetlivy made a port call while carrying out tasks in the Mediterranean, whereas a few days earlier the American guided-missile destroyer docked in Limassol after taking part in multinational exercises in the Eastern Mediterranean. The port of Limassol is also serving as a base for four Scandinavian vessels, which were due to collect the chemical cargo in December

4. Turkish Cypriots

During the month of December, the Republican Turkish Party (CTP-BG) reelected Prime Minister Özkan Yorgancıoğlu as party leader. The party held its 24th party congress on 8 December. Incumbent Yorgancıoğlu was challenged by Party Secretary Asım Akansoy. A total of 1,015 delegates participated in voting. Yorgancıoğlu secured 555 votes against 442 cast for Akansoy, with 18 invalid ballots and one cancellation.

Consequently there was no change in the current government, although Akansoy resigned his position in the party following the result. Thereafter the party voted for a new secretary. Kutlay Erk, a former mayor of Turkish Nicosia Municipality, emerged as the consensus candidate and ran uncontested for the post.

Whereas Yorgancıoğlu consolidated power within his party, a crisis emerged with the coalition partner, Democrat Party (DP-UG). A dispute regarding the fate of 366 seasonal workers hired by the previous government suddenly threatened the stability of the government in late December. Prime Minister Yorgancıoğlu was adamant that seasonal workers' contracts, scheduled to expire on 31 December 2013, would not be renewed. Moreover, Yorgancıoğlu maintained that in the next fiscal year the government would cease the practice of hiring seasonal workers as part of an economic policy package. Deputy Prime Minister Serdar Denktaş publicly disagreed with the policy and sought to raise the matter in the formal setting of the Council of Ministers. When President Derviş Eroğlu presided over the Council of Ministers during the last week of the year, the agenda was the Cyprus Problem, but the political issue remained unresolved within the government.

Speculation was rife that DP-UG leader Serdar Denktaş hoped to distance himself from redundancies in the run up to municipal elections in the coming year. Consequently this fuelled further speculation that the coalition government could fail in the near term. More-

over, newly emerging allegations regarding corruption and the unfolding crisis in Ankara had even the potential to affect Recep Tayyip Erdogan's hitherto unchallenged grip on power. Denktas, who had been at odds with Erdogan and his Justice and Development Party (AKP) may have been anticipating potential new coalitions in the TRNC as a consequence of any dramatic changes in Turkey. However, the month and year ended with the coalition government intact. Negotiations continued into the first days of the new year.

The disagreement overshadowed parliamentary approval of the 2014 fiscal year budget, as well as the longer term efforts to legislate public sector reform. While the government was committed to implementing an austerity plan agreed to with Turkey by previous governments, it was also aware of the problem of unemployment. Unemployment is estimated to have been 9.9% in 2013 remaining on the same level than in 2012. The governments expect the economy to grow by 4% in 2014. In 2013 economic growth was 2.2%. Turkish Cypriot dailies remained engaged with initial discussions between the Greek Cypriot (i.e. Republic of Cyprus) football federation and the Turkish Cypriot football federation regarding a deal ratified by FIFA that would incorporate the Turkish Cypriots into European football via the Cypriot football federation.

By contrast, the formal Cyprus peace talks entered a crisis phase as the sides could not agree on the wording to a joint communiqué

that served as a prerequisite for reinitiating fully fledged negotiations that had been suspended since Cyprus' EU presidency in 2012. The election of Nicos Anastasiades as President of the Republic of Cyprus had raised hopes that negotiations would recommence in 2013. However, by the end of the year disagreements over the joint statement remained acute. Terminology regarding sovereignty and the exercise thereof (including the residual powers of states within the federal system) divided the leaders and their representatives, while the United Nations Good Offices failed to mediate an agreement. The emerging political crisis in Ankara, alongside the electoral cycle that would affect Turkey in 2014, further reduced the chances that 2014 would prove a year of breakthrough as well.

Whereas the visit of Turkish Foreign Minister Ahmet Davutoğlu on 14 December was held as an opportunity to broker a deal, the Turkish response did not meet Anastasiades' conditions for agreeing to a joint statement text. Consequently the month of December ended without agreement and led to increasing uncertainty about the status of the UN mediated talks. Indeed, the various exogenous factors, including Turkey's domestic electoral cycle and unfolding crisis, led to speculation that Ban Ki Moon's special representative to Cyprus, Alexander Downer, might reconsider his commitment to the Good Offices mission to Cyprus that he headed since 2008.

Despite the apparent failure of talks, the Turkish Cypriot government and Prime Minister Yorgancıoğlu expressed support for the Turkish position and the draft submitted on 14 December. TRNC Foreign Minister Özdil Nami also expressed support as well as sustained optimism that a deal on the joint statement was close at hand, despite months of rancor over the selection of words.

5. FES Cyprus Events

January

Monday 13. January 2014, 7 pm

GOETHE INSTITUT CYPRUS-GERMAN-CULTURE-ASSOCIATION / FES

Film

Remembering Willy Brandt

Language: German with English subtitles

Hall of Goethe Institut, Nicosia
(in the UN Buffer Zone)
Open to the public



Thursday 16. – 20. January 2014

FAMAGUSTA CHAMBER OF COMMERCE AND INDUSTRY / THE BI-COMMUNAL FAMAGUSTA INITIATIVE / FAMAGUSTA MUNICIPALITY / GOETHE INSTITUT / USF (UNIVERSITY OF SOUTH FLORIDA / JAN WAMPLER ARCHITECTS / FAMAGUSTA INITIATIVE) / MANTOVANI PLOTIN TRAVEL / FES

Discussion Panels and Presentation

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