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## 1. Cyprus Problem

It seems that the deteriorating economic conditions in the south have a serious impact on one of the most important aspects of the Cyprus Problem: the property issue.

Since the decision of the European Court of Human Rights on the Demopoulos case in 2010, Greek Cypriots refugees have been obliged to apply via the Immovable Property Commission (IPC) to pursue their property rights in the north.

In the last six months the number of Greek Cypriot refugees seeking compensation by the IPC for their properties in the north has increased by 30%, (approximately 1000 new applications). By July 2012, the IPC had recorded a total of 3473 applications. Around €109 million were paid out in compensation to Greek Cypriots, thus giving up their property rights in the north. According to this month's figures, 4471 applications were lodged to the Commission and the amount of €120 million was paid so far in form of compensation. The IPC was set up by Turkey in the north back in 2006 to provide for a local remedy for Greek Cypriot property issues as requested by the European Court of Human Rights. In response to the upward trend in the applications Attorney General Petros Clerides plans to hold a broad based meeting after the elections to address this issue.

The Cyprus issue was the main point of discussion during the second televised live debate between the three main contenders in the presi-

dential elections taking place in the south on February 17<sup>th</sup>. Essentially, all three candidates agree on one point: they currently do not accept the 2004 Annan Plan.

EDEK-backed candidate Giorgos Lillikas, rejects a bizonal, bicomunal federation which according to Lillikas leads to partition. Instead he aspires to start negotiations from scratch. AKEL backed candidate Stavros Malas, on the other hand, warns that abandoning the idea of a bizonal, bicomunal federation will also lead to partition. Malas stated that his position stands for a strong federation, with a central government that secures Cyprus' Exclusive Economic Zone. In contrast, DISY leader Nicos Anastasiadis, backed by hard liners of DIKO, also supports a bizonal and bicomunal settlement, however as a loose federation and plans to include the EU and Turkey into the negotiations process.

## 2. Hydrocarbons

On the 24<sup>th</sup> the government sealed an agreement granting the ENI-KOGAS joint venture a concession to drill for hydrocarbons in offshore blocks 2, 3 and 9. Roughly €150 million will flow to the cash strapped state coffers as a signature bonus.

The first concession period will run for 3 years with an optional renewal for two more. The respective percentages of Cyprus and the companies in the production-sharing contract,

are not made public due to a conditionality agreement between the parties.

The government is convinced that there will be synergies from the licensing to the Italian-Korean consortium, since blocks 2 and 9 run in the path of the pipeline planned to transport gas from Noble Energy's concession to a terminal which would convert it into a liquefied form onshore.

Meantime Noble has pushed back its appraisal drilling planned for next April in block 12 because the rig has been tied up in Israel's Leviathan field. Noble's license expires in next October.

Meanwhile, separate talks with French company Total, bidding for blocks 10 and 11, seem to be progressing well with the company revealing its intention to drill directly for oil at 7400 feet depth.

Furthermore, Cyprus expects to begin soon negotiations with natural gas suppliers, aiming to import gas for electricity production until the island is able to exploit its own offshore hydrocarbon reserves. Using natural gas instead of diesel to fire power plants would lower the electricity price, the highest in the EU.

Last October, Natural Gas Company (DEFA) issued a call of interest for potential suppliers of natural gas as an interim solution. Having received expressions of interest, DEFA sent tender documents to 14 companies so they can submit their proposals by February 4<sup>th</sup> in order to begin negotiations.

Additionally, after a meeting held on the 22<sup>nd</sup> between DEFA and the State Hydrocarbons Company (KRETYK), it was agreed on the basis of a Cabinet decision that DEFA should be the sole importer and distributor of natural gas in Cyprus.

### 3. Greek Cypriots

#### Economic Developments

No substantial progress has been achieved on the Cyprus adjustment programme as the total amount needed for banks recapitalization is still pending. Instead, Cyprus is faced with money laundering accusations and suspicions over financial transparency matters which jeopardizes a potential bailout being passed through EU national parliaments. Given President's Christofias opposition to the privatisation of state owned enterprises, an agreement is more likely to be concluded after the presidential elections in February.

Consultations on defining the final recapitalization needs between US investment company Pimco and a steering committee - made up by Cypriot representatives, the European Commission, the European Central Bank, the European Bank Authority and the European Stability Mechanism - is still pending, with the Central Bank overshooting a deadline to decide on a final figure. The final report was scheduled to be released by Pimco on January 15<sup>th</sup> but had

not been submitted when the month came to a close.

The total amount required for the recapitalization of the banks will determine whether Cyprus' debts are deemed sustainable with the Central Bank working towards preventing the worst case scenario and keeping the amount under 9 billion (a preliminary figure estimated Cyprus will need approximately 10.3 billion). This in turn will determine whether the troika will demand further measures to be taken - notably privatizations or a haircut - should Cyprus' debt ratio exceed 120% of GDP, rendering it unsustainable according to IMF criteria.

The delay in concluding with Pimco the final recapitalization amount pushed further back any possible agreement on the Cyprus bailout which was expected to be finalised at the Eurogroup meeting on the 21<sup>st</sup>. Meantime European Central Bank member Jörg Asmussen stressed that the problems Cyprus is currently facing could be systemic for the rest of the euro area, while Charles Dallara, head of the Institute of International Finance, warned of underestimating the potential contagion impact coming from Cyprus. German Minister Gerhard Schäuble, who questioned whether Cyprus was systemically relevant was criticized by the President of the European Central Bank, Mario Draghi. German lawmakers are reluctant to approve a bailout for Cyprus as it is accused of being a popular tax haven and money laundering place for Russians.

When the month came to a close there were first signs that the resistance within the parties in Germany against a bailout of Cyprus was weakening, though approval for a Cypriot bailout in other countries like the Netherlands was also still far from certain. In light of recent negative reports regarding the island's money laundering record, mainly in German media, the Cyprus Investment Promotion Agency (CYPA) hired an international communication firm to help its bid to secure financial assistance and increase direct investment to the island. Additionally a contract was signed between the Planning Bureau and the Cypriot Unit for Combating Money Laundering (MOKAS) for the implementation of a project aiming at strengthening Cyprus's anti-laundering capabilities. The main bulk (85%) of the project's €1.100.882 cost will be funded by Norway.

In sum Cyprus still needs to face 3 major challenges: Debt sustainability, transparency matters and whether the problems of the Cypriot economy are systemic or not and what impact these have on the Eurozone, will decide German support or not for the Cypriot bailout. But also German domestic considerations in an election year will play an important role. Should Angela Merkel support a bailout, then coalition discipline might secure a positive vote in order to save her from a parliamentary defeat. The Green Party and the Social Democrats who are in opposition are openly reluctant to back a Cypriot bailout because of the tax haven and money laundering accusations against Cyprus.

Further downgrades into junk status of Cyprus' credit rating took place this month by agencies Moody's and Fitch.

The average number of the registered unemployed for the year 2012 is 36.362 persons compared to 28.276 for 2011, this amounts to an increase of 28.6%. The number of unemployed in December 2012 set a new record reaching 41.625 or 14,7%.

According to Eurostat, Cyprus recorded the highest annual increase in government debt to GDP ratio among the countries of the European Union. At the end of the third quarter of 2012, the public debt of Cyprus amounts for €15 042 billion or 84% of GDP, in comparison to the second quarter of the year were the debt was estimated at €14 823 billion or 82.8% of GDP.

Russian Finance Minister Anton Siluanov expressed Russian intentions to loosen the terms under which Cyprus had to repay its 2.5 billion loan by extending the repayment period by 5 more years. Prime Minister Dimitry Medvedev declined a further 5 billion loan to Cyprus except if certain economic conditions set by the European Union were met. The government asked the help of Archbishop Chrysostomos to mediate together with the Russian Church, hoping to receive a more favourable response from Russia. In the end President Christofias confirmed Russian readiness to contribute towards the Cyprus bailout along with the European Union after a

phone call made to Russian President, Vladimir Putin.

### **Domestic Developments - Elections**

On 17 February roughly 550.000 people, including 604 Turkish Cypriots, are eligible to elect the next President of the Republic of Cyprus. If none of the candidates ensures more than 50 per cent a second round of elections will be held a week later. There will be also 40 polling stations in a dozen countries for Cypriots living abroad. Presidential elections are held every 5 years. The President is elected directly, by universal suffrage and secret ballot. The candidates must be citizens of the Republic of Cyprus and over 35 years of age.

Altogether there are 11 presidential candidates but only three have a chance of being elected. The three are Nicos Anastasiades from the conservative right wing party Democratic Rally (DISY) who is backed by centre right DIKO, Giorgos Lillikas from socialist EDEK and independent candidate Stavros Malas who is supported by leftist AKEL.

Apart from the larger parties, smaller parties such as the Greens or ELAM also send their own candidates. ELAM (National Popular Front) is a nationalist group with close connections to Chrysi Avgi (Golden Dawn) from Greece which have been in the headlines for their aggressive, nationalist stance. Georgios Charalambous who is ELAM's candidate describes its ideology as 'popular and social nationalism'. The political

agenda is based on an anti-federalist solution regarding the Cyprus question, a zero-tolerance and anti-immigration policy against illegal immigrants and in favour of Hellenistic education. During the 2008 parliamentary elections ELAM gained 1.08 per cent of the votes, close to the minimum requirement of 1.8 per cent of total votes. ELAM's election campaign is supported by two Greek MPs of Chrysi Avgi, who came when Georgios Charalambous announced his candidacy.

With regards to DIKO's support for Nicos Anastasiades there has been a split within the party from the outset. This intensified when Nicolas Papadopoulos, son of late President Tassos Papadopoulos, and vehement opponent to a collaboration with DISY resigned his post as vice-chairman of DIKO on 17 January. With this step Papadopoulos sets himself apart from the party leadership under Marios Garoyian who supports Anastasiades. In September last year Papadopoulos campaigned for supporting Lillikas in the coming elections.

Two weeks before the elections Anastasiadis still remains the strong favourite to win the elections leading over his two rivals by considerable margins in all opinion polls. He even has a chance to win the elections in the first round on 17 February. Failing that he will face the runner up in the second round on 24 February. It is still an open question if this will be Lillikas or Malas, whose polling results are very close. If Lillikas makes it to the second round and obtains the support of AKEL (which is highly unlikely) then he will have

an outside chance against Anastasiadis. According to polling results, Malas has no chances against Anastasiadis in a second round. But Malas has higher chances than Lillikas to make it to the second round since he enjoys the support of ruling AKEL.

As in other countries, televised debates of the main presidential candidates have been integrated in the pre-election campaigns. The first of three debates took place on 14 January and focused on the economy. Anastasiades rejected Lillikas' proposals such as pre-selling a part of the natural gas found off the coast of Cyprus in order to pay for the state deficit since the actual size of the gas reserves was still unclear, but also because there might be the danger of selling the gas too cheap, since its price will rise once the necessary infrastructure is in place. With reference to privatisations of semi-governmental organisations as demanded by the Troika it seems unclear what stance Anastasiades has, whereas Lillikas did not seem to be convincing, either. All candidates are opposed to privatisation but Lillikas and Anastasiadis seemed to be prepared to accept a partial privatisation of the telecommunications company CYTA. Moreover, Malas appeared to have failed to distance himself from the policies and bad image of the current government.

The second televised debate took place on 28 January and focussed on the Cyprus problem. Lillikas has been known as a stern opponent to the 2004 Annan Plan and is against a bi-zonal, federal solution and supports a unitary state or

at a later state in his campaign a multizonal solution. In order to achieve this he wants to start separate negotiations with Turkey and the Turkish Cypriots. Anastasiades, who supported the Plan in 2004, said during the debate that he always 'had shown respect for the wishes of the people'. In order to gain the support from DIKO, Anastasiades had to adapt his stance on the Cyprus problem and agreed to appoint a negotiator other than himself for future talks. Malas pointed out that he would 'under no circumstances accept' the Annan Plan of 2004, but is supporting the idea of a strong federation with a central government.

The third debate is scheduled for 11 February and will focus on the economy and domestic policy.

In the midst of the on-going debate whether Cyprus is a hot spot for money laundering and a tax haven the German Chancellor Angela Merkel attended a conference of the European People's Party (a party formed by conservative centre-right parties from Europe) on 11 February. Other political leaders included President of the European Commission José Manuel Barroso, Greek Prime Minister Antonis Samaras and Irish Prime Minister Enda Kenny. Anastasiades used the opportunity to demonstrate his close connections with the leaders of other European conservative parties. The leaders of the other political parties criticised Anastasiades for using this summit meeting as a way of polishing his image. Spokesman Haris Georgiades of DISY pointed out, that Anastasiades aimed at building

alliances in Europe for the benefit of the country.

Although the main objectives of the summit were to discuss next year's Europe wide elections and the multi-annual financial framework – the spending plan that translates the EU priorities into financial terms, the financial crisis in Cyprus dominated the meeting.

## 4. Turkish Cypriots

### Economic Developments

The 2013-2015 Economic Program and the associated financial memorandum, signed in December 2012 with Turkey, foresees the privatization of telecommunications and electricity production and services. However the government faced significant domestic opposition. Consequently Prime Minister Irsen Küçük and his government were yet to privatize loss making publicly owned companies. Workers and their union representatives had been arguing for months that the government's inability or unwillingness to collect dues on accounts in arrears was the essential factor explaining the electric company's (KIB-TEK) deficit. In early January the Minister of Economy, Sunat Atun, outlined new guidelines for collecting on bills, making service provision linked more immediately to the payment of debts.

Against this, Turkey and the government continued to propagate the strategic importance of



water pipelines from Turkey that would also incorporate electricity cables by the target date of 7 March 2014. Dubbed the 'project of the century, one upshot of this development would be the provision of electric energy at lower costs than that currently produced with the further potential of selling excess capacity to the Republic of Cyprus in the south. Turkish officials continued to reiterate the view that Turkish loans and grants could not go toward subsidizing either telecommunications or electricity.

Prime Minister Küçük had travelled to Ankara on New Year's eve coinciding with the transfer of 3 MPs from splinter parties back into the ruling National Unity Party (UBP). This coincided with a growing crisis in the capital city, Nicosia (Lefkoşa) where the municipality was insolvent and had not paid salaries in three months, leading to a strike and the suspension of municipal services, including garbage disposal. The government's intervention prompted the municipal workers union (BES) to cancel a meeting with the Republic of Cyprus' President Demetris Christofias, which would have been symbolic and embarrassing to the Turkish Republic of Northern Cyprus (TRNC)<sup>1</sup>. Küçük's government

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<sup>1</sup> The Turkish Republic of Northern Cyprus (TRNC) is only recognised by the Republic of Turkey. While for Turkey and the Turkish Cypriots, Derviş Eroğlu serves as President of the TRNC, the international community considers him the communal leader of the Turkish Cypriots. As the Greek Cypriot 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

brokered a deal between the Nicosia Turkish Municipality (LTB) and the municipal workers labour union (BES). This deal that was signed on 8 January included the payment of three salaries and the provision of restructuring credit from the Ziraat Bank. This development coincided with discredited LTB Mayor Cemal Bulutoğullari's formal resignation on 14 January. The resignation led to a process that would culminate in a by-election for the vacant Mayor position by June (or earlier). Meanwhile the Council of Ministers approved the transfer of 6 million YTL (approximately 2.5 million Euros) as an advance payment from the 2013 fiscal year contribution to LTB, thus pushing the financial crisis to the future. The strike was suspended and municipal workers returned to work after three months of chaos.

During the month of January the government increased the minimum wage from 1300 YTL (546 Euros) to 1415 YTL (594 Euros). The Minister of Finance defended the change, portraying it as gain in incomes for low earners. Critics maintained that the changes were mandatory under the law and only reflected the cost of living adjustment (COLA) that was itself based on flawed data from the State Planning Office.

During the month of January the opposition Republic Turkish Party (CTP) failed to announce their anticipated alternative proposals for economic development.

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communautaire is suspended in northern Cyprus pending a political settlement to the Cyprus problem (see Protocol no. 10 of the Accession Treaty).



### **Domestic Developments**

In January the government began issuing electronic passports.

On 3 January the Nicosia (Lefkoşa) District Court arrived at a decision regarding the disputed result of the ruling National Unity Party's (UBP) congress of October 2012. Accordingly, Prime Minister Irsen Küçük's narrow victory was nullified, as the court found that the party's bylaws had not been applied properly. The condition of an absolute majority of delegates had not been met, thus requiring that a second round of voting to be held. Consequently the presiding judge determined that the party congress be repeated within ten days with the same delegates as the congress held in October.

The UBP appealed the verdict requesting an extension of the ten day period. This request was rejected by the District Court on 8 January prompting UBP to appeal to the High Court of Appeals. In the interim Küçük denied claims that he had offered his rival, Ahmet Kaşif, 6 ministries in return for dropping his insistence on repeating the party congress vote.

On 23 January the High Court of Appeals reaffirmed the decision of the District Court, nullifying the party congress result of 21 October 2012 and ordering a reconvening of the party congress in accordance with party bylaws (i.e. implying within seven days). Despite this the UBP only met on 30 January to deliberate and determine a date for rescheduling the party congress.

The first anniversary of TRNC founder Rauf Danktaş's death was marked by state ceremony on 13 January.

On 31 January President Derviş Eroğlu briefed Parliament on the status of the Cyprus peace talks that had been suspended since the Republic of Cyprus had assumed the EU Presidency in the second half of 2012. Following Presidential elections to be held among Greek Cypriots in February 2013 there was anticipation that direct talks would recommence by March. In the interim Cyprus negotiations had been reduced to a technical level. During the month of January a small crisis regarding the Cultural Heritage Technical Committee's agenda to restore the Apostolos Andreas Monastery in the Karpaz region was averted and a final agreement was reached.

## 5. FES Cyprus Events

**26 February 2013: 18.00-20.00**

FES

Conference:

**Zypern nach den Wahlen. Aktuelle Herausforderungen - Neue Perspektive?**

Presentations from Heinz-Joachim Barchmann (MdB) Christophoros Christophorou, Kudret Ozersay and Gunter Seuffert, Chair: Eckhart Kuhlwein (Deutsch-Zyprisches Forum/German Cypriot Forum, DZF)

Friedrich-Ebert-Stiftung, Konferenzsaal I, Berlin, Germany

open to the public



**1 March 2013: 09.30-16.00**

Institute of Commonwealth Studies/ School of Advanced Studies/ University of London/FES

Conference:

**Political Institutions in the Republic of Cyprus**

UNESCO-Amphitheatre  
University of Nicosia,  
Nicosia, Cyprus  
open to the public



**16 March 2013: 9.00-13.00**

Goethe Institut/AHDR/FES

Lectures and Workshops:

**Geschichte Erinnern in Deutschland/Remembering History in Germany**

Lectures from Beiträge von Uwe Bader, (KZ-Gedenkstaette Osthofen/Concentration Memorial Osthofen) and Magdalena Scharf (Expert for Regional Cooperation of the Aktion Sühnezeichen Friedensdienste e.V.,

Home for Cooperation H4C, UN Buffer Zone  
Nicosia, Cyprus  
open to the public



**21-22 March 2013**

AHDR /FES

Documentary and discussion:

**The Other Town**

21 March 2013

Screening of a Documentary about perceptions and nationalist prejudices between mainland Greeks and Turks).

Followed by a discussion with the directors Nefin Dinc and Hercules Millas)

Home for Cooperation H4C, UN Buffer zone,  
Nicosia, Cyprus  
open to the public

22 March 2013

Workshop with the directors

Home for Cooperation H4C, UN Buffer zone,  
Nicosia, Cyprus  
open to the public

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**Friedrich Ebert Foundation (FES)**

Office Cyprus

20, Stasandrou , Apt. 401

CY 1060 Nicosia

Tel. +357 22 377 336

Email: fescyprus@cytanet.com.cy

**Text:**

Hubert Faustmann, Erol Kaymak,

Yiannis Charalambous and Ute Ackermann Boeros

**Layout:**

Christiana Paparoditi

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**Christiana Paparoditi [fespaparoditi@gmail.com](mailto:fespaparoditi@gmail.com)**