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1. Cyprus Problem

In January the start of the negotiations over Cyprus continued to stall over the wording of the joint statement with both sides reverting to the usual blame game. But EU leaders threw their weight behind calls for movement in the Cyprus Question during Turkey's Prime Minister Recep Tayip Erdogan's visit in Brussels and ahead of the Security Council's briefing on the peace talks by UN Special Advisor Alexander Downer.

For a third consecutive month, efforts to agree on a joint declaration with a significant content on the basis of the negotiations, specifically on the issue of sovereignty, were stalled after the two sides were unable to overcome their differences. The last draft text was sent by the Greek Cypriot side via the UN to the Turkish Cypriot side, which rejected it on December 27, insisting on the Turkish Cypriot proposal submitted on December 14. In an attempt to overcome the impasse, President Nicos Anastasiades via a letter sent to UN Secretary General Ban Ki Moon dated January 2, suggested a shorter joint declaration including references to specific UN Security Council resolutions.

In the meantime, tensions between Downer and the Greek Cypriot side increased, shortly after Anastasiades severely criticised the latter in an interview, implying that the Australian diplomat was not objective in his duties. Downer, in turn, postponed his scheduled visit

to the island and avoided to meet the President.

While politicians continued to stumble over words, four prominent business organizations, the Cyprus Employers and Industrialists Federation (OEV), the Turkish Cypriot Businessmen's Association (ISAD), the Hellenic Foundation of Enterprises (SEV) and the Turkish Industry and Business Association (TUSIAD) agreed on a joint declaration, calling for the resumption of peace talks highlighting the economic benefits for all relevant parties involved.

On January 20, Turkish Cypriot leader Dervish Eroglu sent a letter to the UN Secretary, which called on the latter to pressure Anastasiades to agree to the Turkish Cypriots version of the draft joint communiqué or else start the talks without any preconditions. Eroglu's letter was interpreted as an ultimatum by the Greek Cypriot side. Ban Ki Moon also took the initiative to call Turkish Foreign Minister, Ahmet Davutoglu, urging for the resumption of the talks the soonest possible. The Cyprus Question was among the issues discussed during a meeting in Paris between Davutoglu and his US counterpart, John Kerry, earlier in the month. Meanwhile, the US via Ambassador Koenig increased its diplomatic activity in an attempt to bridge the gap between Greek Cypriots, Turkish Cypriots and Turkey on the draft text of the joint communiqué

On January 21, the United Nations Security Council expressed its support in the Cyprus

Question, indicating that agreeing on a joint declaration as soon as possible was indispensable for substantive reunification talks. During a teleconference, UN special representative, Lisa Bittenheim, and special advisor, Alexander Downer, briefed the Security Council on the Good Offices mission for Cyprus.

On the same day, at a joint news conference in Brussels, following a meeting with Turkish Prime Minister Recep Tayyip Erdogan, the President of the European Commission, Jose Manuel Barroso and the President of the European Council, Herman Van Rompuy, called on the Turkish Prime Minister to help push forward a Cyprus solution, which would have a positive impact on Turkey's EU course. Erdogan, however, stated that Turkey would only accept a federal solution based on two founding states. He refused proposals regarding the withdrawal of Turkish troops from Cyprus as a confidence building measure as this had been offered in the Annan plan, which was rejected by the Greek Cypriots.

On January 30, the UN Security Council unanimously adopted a resolution to renew the UNFICYP's mandate for another six months, until July 31, 2014. While noting the efforts undertaken to resume the peace talks, the Security Council expressed its disappointment about the failure to resume official negotiations and called on the sides to agree in a meaningful way to move forward as soon as possible.

The Famagusta Ecocity project, a new initiative to regenerate the ghost town of Varosha into a thriving, economic and environmental hub, was launched in January. The project is set up by a group of private citizens and academics from both communities.

2. Hydrocarbons

Noble Energy stressed that the reserves in Block 12 are insufficient for an onshore liquefied natural (LNG) plant and proposed a floating LNG to develop the proven gas reserves at the Aphrodite prospect in its Block 12 concession.

The US firm estimates that the actual amounts of gas are more likely to be closer to 3.5 trillion cubic feet (tcf). Undiscovered gas at other sites in Block 12 might collectively amount for additional 1.5 tcf. Even if combined, these quantities would not suffice to justify a single-train¹ onshore LNG terminal. In order to make such an investment economically viable, proven reserves of at least 5.5 tcf are required. But even if the reserves were finally found the establishment of a one train LNG might be problematic since experts consider this not a viable option as its production is vulnerable to technical defects. According to those experts

¹The term train is Energy industry jargon for a production unit in a liquefaction plant. Larger numbers of such units (i.e. trains) tend to achieve lower costs on a unit basis, due to economies of scale and shared infrastructure.

invited to talk at a conference organised by PRIO, the Brookings Institute and the Friedrich Ebert Foundation in November 2013 international companies want to see at least a two train LNG in place to have a secure and reliable production of liquefied gas.

Noble suggested to the government that 1 tcf be diverted (via floating LNG) to the domestic Cyprus market for electricity generation, while 2 tcf would be made available for exports to Greece and Italy. Even though Noble publicly reiterated in December that the gross range at Aphrodite was 3.6 tcf and 6 tcf with a gross mean of 5 tcf, it internally assigns a 90% probability to the presence of 3.1 tcf.

In the meantime, the government is pressing ahead with a second tender for the import of interim gas supplies, even though Noble's proposal covers the interim period as well. The Natural Gas Public Company (DEFA) invited tenders for expressions of interest in order to import gas for generating electricity. Interested parties are asked to submit tenders for a seven-year period, beginning 2016, with an option of extending the contract for three additional years. The minimum and maximum gas requirements for 2016 are respectively 19.45 million mmbtu and 30.41 million mmbtu. The deadline for the submission of proposals is March 24, 2014. The government hopes to obtain a price of \$10-11 per mmbtu.

The French energy company Total was granted a licence for seismic exploration for oil and gas

in blocks 10 and in parts of blocks 6, 7 and 11, which are situated within the Cyprus Exclusive Economic Zone (EEZ). The licence is valid from February 1 until May 1, 2014. Meanwhile, Turkish research vessels encroached into southern and south-western waters of the Cyprus EEZ to conduct seismic surveys in offshore blocks 4, 5 and 6, reaching the boundaries of block 1.

3. Greek Cypriots

Economic Developments

During the month of January a delegation of the European Parliament visited Cyprus as part of a probe into the legality, democratic legitimacy and the impact of the troika of international lenders on members of the Eurozone under a bailout programme. The members of the EP Committee plan to visit all bailed out countries of the Eurozone before compiling a report and proposing changes for the future.

As of January 13, the Value Added Tax (VAT) was increased by 1% to 19% as part of a series of obligations of the €10 billion bailout program the island agreed with its international lenders in March 2013.

The European Central Bank (ECB) pointed its finger to the Central Bank of Cyprus as being solely responsible for providing excessive funds from the Emergency Liquidity Assistance (ELA) mechanism to Laiki Bank. In order to grant ELA to Laiki, the bank should have been solvent. The

ECB argued specifically, that the assessment of the solvency of banks applying for ELA rests with the national authorities, which is responsible for the supervision of credit institutions, meaning the ECB. Laiki received €1.8 billion in state support in June 2012 and began to collect ELA funds in March of the same year. By June 2012, it had withdrawn 8 billion in ELA funds amounting to more than half of the island GDP. The amount had risen to €11.4 billion just before the Eurogroup decision of March 2013 to wind down the bank. The CBC governor defended the ECB's actions by arguing that Laiki was solvent when the ELA was authorized. The governor further argued that a bank's solvency is not a factor of its repayment obligations. Furthermore, he argued that solvency equals assets to support borrowing by being offered as collateral. When Laiki was granted ELA, the bank was fully recapitalized through the injection of €1.8 billion state funds.

According to the European Central Bank (ECB), Cyprus recorded the biggest decline in the number of Monetary Financial Institutions (MFI) in the Eurozone, from 7059 in January 2013 to 6790 in January 2014

The government announced the establishment of an Independent Fiscal Council, which will monitor public finances by setting rules for fiscal discipline and transparency. The council's mandate includes assessing macroeconomic and fiscal projections and providing policy advice based on the analysis of fiscal projections and review of results budget formulation,

approval and execution. It was meant to be adopted by the end of 2013 according to the memorandum of understanding (MoU) agreed with the troika.

At a conference organized by the Central Bank of Cyprus (CBC) on arrears management and loan restructurings, EU and IMF experts revealed that €19 billion is currently owed to banks in the form of non-performing loans (NPLs). Thus, the restructuring of loans is a critical component, if the Cyprus bailout programme is to be successful. NPLs are among the issues expected to be discussed with the troika, which arrived on the island on January 28, for the third review of the Cyprus bailout programme.

On Jan 30, Bank of Cyprus announced the release of €900 million held in fixed-term deposits that matured on the following day. These six-month time deposits accounted for 1/3 of the 52.5%, which were frozen by the CBC after the 47.5% haircut on uninsured deposits above 100.000 Euro for the bank's recapitalization.

According to figures announced by Eurostat, in December unemployment reached 17.5% of the active workforce. This corresponds to roughly 78.000 people.

Furthermore, private sector deposits in Cypriot banks declined slightly in December, offsetting the November rise as a sign of stabilisation after 17 months of falls. Deposits fell by 0.8% reaching €35.1 billion in December and were at the

same level as in October. The deposits are still 30% below the €50.5 billion peak of May 2012.

The month ended with finance minister Harris Georgiades issuing a decree that set the pay cuts in the cooperative sector. This ended a dispute with the trade union ETYK, which disagreed with the scale of the reductions. The decree set the cuts at the same level that was agreed with the other unions SEK, PEO and PASYDY on January 1. It stipulates a 3% cut on all salaries and additional tiered salary cuts ranging from 8 to 25%. The decree paved the way for the implementation of the voluntary early retirement programme and a 5-year scheme for the rationalization of expenditures totalling €300 million. Finally, BoC reached an agreement on the last day of the month to sell its loss making Ukrainian operations for €225 million to ABH Ukraine Limited.

Domestic Developments

The government approved legislation, which will allow Turkish Cypriots to vote in the European Parliament (EP) elections coming May. The bill provides that all Cypriot citizens who are eligible to vote, including those living in the north with Cyprus Republic identity cards, will be automatically registered on the electoral roll and will not have to apply. Approximately 80.000 Turkish Cypriots are holders of Cyprus Republic identity cards. Consequently, Cyprus which is entitled to 6 Members of the European Parliament (MEP's) may be represented by 2 Turkish Cypriots. Turkish Cypriot publisher and

writer, Sener Levent, announced his intention to stand as MEP candidate, the first Turkish Cypriot MEP candidate since Cyprus joined the EU in 2004. Foreign minister Ioannis Kasoulides stated that the Turkish Cypriots cannot be granted observer status in the EP.

The Turkish Cypriot leadership, however, pointed out that the north should vote in a separate election in accordance with the 1960 constitutional agreement. Furthermore, Ozdil Nami stated that allowing only Cyprus Republic identity card holders to vote, non-holders would be discriminated, i.e. a large part of the 'TRNC'² citizens. With this, the Republic of Cyprus would 'institutionally reject the TRNC and drag individuals under the roof of the Republic of Cyprus.'

Foreign Policy

On January 15, a historic agreement was signed in London between the Republic of Cyprus and the United Kingdom for the development of

² 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 problem (see Protocol no. 10 of the Accession Treaty).

property within the British Sovereign Base Areas (SBAs). The agreement safeguards the broader interests of Cyprus and frees more than 75% or 200 square kilometres of territory within the bases, giving 83.000 residents or property owners increased flexibility to buy, sell or develop private property. Additionally, the Cypriot authorities are authorized to establish planning zones in the area and administer those zones for development purposes. The arrangement reverses a 1960 agreement for residents and owners of property inside the bases by restoring their rights. Thus, the UK government is prevented from setting up civilian commercial and industrial enterprises in the bases, unless these are connected with military requirements. The agreement was signed between the Cypriot Foreign Minister, Ioannis Kasoulides, and the British Foreign Secretary, William Hague, in the presence of President Anastasiades. The bases' deal is the culmination of increasingly improved relations between the two countries.

Dervish Eroglu, the President of the 'TRNC', reacted with 'annoyance' to the deal as this would negatively influence the negotiations. In particular, in his opinion, the timing was 'thought provoking'. Furthermore, since both sides signed the 1960 agreement, the Turkish Cypriots should also have been consulted.

As part of a 3-day official visit, President Anastasiades travelled to Qatar in an attempt to attract foreign investments and promote the island as an investment destination.

4. Turkish Cypriots

The section on the developments in the north will be included in the March edition.

5. FES Cyprus Events

February

--- no events ---

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