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## 1. Cyprus Problem

On May 10, Foreign Minister Ioannis Kasoulides met with US Secretary of State, John Kerry, in Washington. The US has lately been taking a proactive approach in the Eastern Mediterranean with Kerry visiting the region three times in the last two months showing a vivid interest in solving many outstanding regional problems.

During the meeting, Kerry pointed out that the economic crisis the Greek Cypriots are facing could provide opportunities to end the frozen conflict of the island, adding that the hydrocarbons prospects discovered in the island's Exclusive Economic Zone (EEZ) could be part of a possible solution. Kasoulides on the other hand argued that the three issues, economic crisis, prospects of the hydrocarbons and a possible solution to the Cyprus Problem, are separate but could be developed in parallel. Kerry reiterated the support of the US towards a bi-zonal, bi-communal federation.

Among the subjects, the return of the fenced-off part of Famagusta to its legitimate owners was discussed as a confidence building measure. In exchange, the Famagusta port would be opened for direct trade by the Turkish Cypriot community under the supervision of the European Union. Meanwhile, the Republic of Cyprus would explore the possibility of unfreezing some blocked chapters in Turkey's EU accession process. The Turkish side also demands the opening of the Tymbou/Ercan airport in the north for direct international

flights. In return, Turkey would open its ports and airports for vessels and planes from the Republic of Cyprus. Such a move would allow the opening of another eight chapters in the accession negotiations. They have been blocked by the EU because Ankara had not lived up to its obligation to open them as part of its customs union agreement.

Kasoulides met in New York also with UN Secretary General Ban Ki-moon. On behalf of President Anastasiades, Kasoulides informed the UN Secretary General that the president is not bound by previous agreements of his predecessor in the ongoing round of the Cyprus talks. The minister also stressed the need to improve trust between the two communities and to postpone the resumption of the peace talks until autumn so the new government could focus on the pressing economic crises; a point, which was understood by the UN Secretary General.

In the meantime, two events provided a pretext for President Anastasiades to send a letter on the 17<sup>th</sup> to the UN Secretary General, accusing the UN Special Adviser Alexander Downer and his team of undermining his credibility and the prospects for resuming the peace talks.

The first was a 77-page document leaked to the media containing the convergences achieved between the two communities during the 2008-2012 talks. The document has been interpreted by most Greek Cypriot political parties as an effort to commit Greek Cypriots to unaccepta-

ble concessions. The second event was an invitation by the UN Special Adviser to a planned dinner between Turkish Cypriot leader Dervish Eroglu and President Nicos Anastasiades initially scheduled for the 29<sup>th</sup> but then moved to the 30<sup>th</sup>. Anastasiades threatened to pull out unless Ban Ki-moon provided personal assurances that it would be a social event and not a meeting of high political importance. Anastasiades' aggressive posture was interpreted as a move to placate his nationalist partner DIKO who are considering Downer *a persona non grata* and have been calling for his replacement. The event eventually took place at the residence of the UN Special Representative in Cyprus, Lisa Bутtenheim. The outcome was a brief statement by Downer referring to both sides as being committed to the peace process and aiming to find an acceptable solution. In order to assure its social character, the two leaders' wives, Downer's spouse and Bутtenheim's husband also attended the dinner.

The recent developments in the TRNC<sup>1</sup> will lead to early elections in July, which in turn may

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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, 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

affect the efforts to restart the negotiations between the two communities. Meanwhile Turkey's EU Affairs Minister Egemen Bagis was quoted by Turkish Cypriot media as saying that Ankara is ready to say "yes" to any solution agreed by the two sides on the island as long as it is based on the political equality of the two communities.

The European Court Of Human Rights (ECHR) rejected a request by Greek Cypriot lawyer Eleni Meleagrou and her family to review the correctness or not of the decision of the Immovable Property Commission (IPC) not to grant restitution for her family home or property in Zodia in the north of the island. The ECHR endorsed instead the other two remedies offered by the IPC, which are in form of either compensation or property exchange.

After 1974 the Cyprus registry transferred the ownership rights of the property registered on Meleagrou's family company to Eleni Meleagrou's mother, Evie. The IPC however, would not accept the property transfer to Evie Meleagrou and her ownership claims, arguing that only those who owned property in 1974 or their heirs were eligible to apply and not heirs to a company. This may mean that when titles of ownership about property in the north are in conflict with Turkish law regarding ownership, the latter may prevail.

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

Following the 2010 Demopoulos case the IPC has been endorsed by the ECHR as an effective domestic remedy for addressing Greek Cypriot claims referring to rights of property and homes. As of May 2 2013, 4.864 applications have been lodged with the IPC. Most of the 367 cases concluded, were settled with compensations. Just a handful were settled with restitution and even fewer with land exchange. The number of crossings and trade across the Green Line decreased significantly in 2012 compared to the previous year according to data released by the European Commission on the 24<sup>th</sup>. In comparison to 2011 the number of crossing by Greek Cypriots decreased from 621.406 to 481.732 in 2012. Furthermore, the number of Greek Cypriot vehicles crossing the Line decreased from 200 877 in 2011 to 154.778 in 2012. The number of Turkish Cypriots crossing the Line decreased from 937.789 in 2011 to 850.362 in 2012. Additionally, the crossing of Turkish Cypriot vehicles decreased from 2011 in 348.225 to 280.358. The value of trade across the Line was three times lower than in 2011. The decrease was mainly attributed to the fact that the sale of electricity from the TRNC to the Republic of Cyprus stopped in March 2012. This was a deal that had been agreed after the Mari incident.

## 2. Hydrocarbons

During the month of May President Anastasiades travelled to Israel for a three-day

official visit. He was accompanied by commerce minister Giorgos Lakkotrypis and government spokesman Christos Stylianides. The visit came amid speculation of whether the possibility of improved Turkish-Israeli relations, following Israeli Prime Minister Benjamin Netanyahu's apology over the Mavi Marmara incident, might put a brake on Cypriot-Israeli relations and the plans for a very close energy cooperation

The two leaders met on the 5<sup>th</sup> and discussed a number of issues, such as energy cooperation, pending agreements on health, research and development, technology, culture, fight on terrorism and organized crime. They also exchanged views on the current developments in the region related to the situation in Syria.

Anastasiades described his visit to Israel as "the start of a new era in bilateral relations" and expressed his satisfaction about Netanyahu's reaffirmation that the Turkish-Israeli rapprochement will not jeopardize Cyprus-Israeli relations. No firm agreements or commitments were announced on energy collaboration, although Nicosia proposed that the two countries pool and explore their natural gas reserves via a mooted LNG plant on the island.

Nicosia also intends to conclude agreements with Tel Aviv on energy security and a utilization deal, paving the way for the exploitation of cross border natural gas and oil reserves. For this, Defence Minister Fotis Fotiou had also visited Israel just ahead of Anastasiades where he met with his Israeli counterpart Moshe

Ya'alon for discussions on securing the offshore natural gas tracks of both countries. Fotiou later revealed that the government is considering purchasing two offshore patrol vessels to monitor Cyprus's Exclusive Economic Zone (EEZ), following the arrival of a delegation from the Israeli defence ministry on May 29. On the 7<sup>th</sup> President Anastasiades also met with Israeli President Simon Peres and addressed a business forum organized by the Federation of Israeli Chambers of Commerce and the Cyprus Chamber of Commerce, where he assured the Israeli business community that Cyprus will remain a reliable partner to Israeli entrepreneurs and investors.

Currently, the government is considering a proposal by an Israeli-led venture to produce and export lucrative electricity from possible gas reserves within offshore Block 3. The venture had a bid for Block 3 but was not selected as the exploration licence was awarded to the Italian-Korean consortium ENI-KOGAS.

The proposal incorporates the construction of a power plant 65 km off the shores of Cape Greco for exporting electricity to Israel and generating electricity for Cyprus' local consumption, by linking the two countries via a subsea cable. Electricity exports to Israel could begin in 2015 or 2016, generating €10 million per BTU<sup>2</sup>, in contrast to natural gas exports via an LNG terminal which cannot be achieved before 2020 or 2021. The project is estimated to cost €5 bil-

lion which may be financed by an off-take agreement backed by the state of Israel.

US firm Noble Energy announced on May 27 that the appraisal drilling in the Aphrodite prospect would begin in early June. The appraisal is done in order to confirm estimated reserves and determine the quality of hydrocarbons within the prospect. Confirmation of the gas estimations in the Aphrodite block would allow Cyprus to start sounding out long term buyers for the gas, paving the way to seek financing for the LNG terminal. The government intends to sign a Memorandum of Understanding (MoU) with Noble for developing the LNG facility by setting up a joint venture between the Cyprus National Hydrocarbons Company and Noble.

The cabinet appointed a chemical engineer, Eleni Vasileiadou, as the chairman of the natural gas company DEFA. Vasileiadou is replacing Costas Ioannou who was removed following alleged actions committed during his term as chairman of the energy regulator CERA. Ioannou is accused of having awarded a licence to a Russian company to build and operate a private power station in 2009 while he was chairman of CERA. The Russian company had engaged the services of a relative of Ioannou as a mediator facilitator in order to obtain the licence.

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<sup>2</sup>BTU (British Thermal Unit) is a traditional unit of energy equal to 1055 joules.

### 3. Greek Cypriots

On May 13<sup>th</sup> finance ministers of the Eurozone met in Brussels where they discussed among other, the bailout program of Cyprus and the troika's<sup>3</sup> assessment of Cyprus' anti-money laundering measures.

A four-page report drawn up by the troika and summarizing the results of two audits on credit institutions on the island undertaken by Council of Europe's Moneyval and Italian private firm Deloitte, revealed that Cypriot Banks suffer from systemic deficiencies in implementing anti-money laundering (AML) measures. The findings of the troika report were disputed by the Central Bank of Cyprus (CBC) as the report did not refer to any positive aspects of the Cypriot AML framework and to the effective implementation of customer due diligence by Cypriot Banks. The Cypriot Central Bank accused the troika of distorting information in its report, which did not give a synopsis of the findings but rather a perceived description of the weaknesses of the system. Among the positive aspects the CBC listed as being absent from the troika summary, was the fact that Deloitte concluded that Cyprus has a stricter legal framework beyond normal EU standards.

The Eurogroup nevertheless approved the disbursement of €3 billion to Cyprus as part of the €10 billion expected to be provided by the

Troika. The tranche was decided to be transferred in two separate installments: The first €2 billion were transferred on the 13<sup>th</sup>. The remaining €1 billion will be transferred before June 30<sup>th</sup>. Both disbursements will be made in cash and will be used for general financing needs of the public sector, including the considerable sum of maturing debt the government is expected to pay in June and the country's fiscal needs.

Russian deputy finance minister Sergei Storchak announced that Russia has not yet agreed to extend the terms of its €2,5 billion loan to Cyprus. He added that any changes to the terms of the loan would need parliamentary ratification. The announcement came after a document prepared by the Troika reported that Russia had agreed to extend the maturity of the loan to Cyprus by two years.

Capital controls were further released on the 17<sup>th</sup> with two more relaxations taking place: the increase of non-cash payment or money transfer within the island amounts from €10.000 to €15.000 per month per natural person in each institution and an increase from €50.000 to €75.000 per month per legal person in each credit institution.

CBC is in the final stage of selecting a firm to carry out the evaluation of Bank Of Cyprus (BoC) assets, a precondition for the bank to come out of administration. The evaluation which will probably be undertaken by KPMG London, should be ready by mid-July and will

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<sup>3</sup> The Troika is comprised by the European Commission, European Central Bank and the International Monetary Fund.

determine how much of the 22.5% of uninsured deposits, currently frozen by the CBC, will be used to recapitalize the bank. As a condition for receiving €10 billion in bailout funds from the Troika, Cyprus was forced to resolve Laiki Bank and recapitalize Boc by using deposits of over €100.000. Depositors have lost 37.5% in exchange for equity in the new BoC, which should also absorb assets that belonged to Laiki. Greek banker Christos Sorotos was appointed interim Chief Executive Officer of BoC. The appointment of a new CEO is seen as a key step for returning the bank towards normalcy.

On May 17<sup>th</sup> the parliament passed a law designed to enable cooperative banks to raise capital on their own so as to minimize their need from possible state assistance. The new rules are designed to fall in line with the Memorandum of Understanding, signed between Cyprus and the troika. Cooperative institutions are to come under the regulatory supervision of the Central Bank. Any amounts for the recapitalization of cooperative banks will thus be drawn from the €10 billion provided by the troika.

The government announced three schemes aiming to provide work for 8.000 people as Cyprus experiences the worst unemployment rates in three decades, which according to Eurostat climbed to 15.6 % compared to 11.2 % last April. Approximately 45.000 people (33.500 being Cypriots) were registered as unemployed in April. The schemes worth more than €30 million are co-funded by the European Union.

Archbishop Chrysostomos also pledged to employ thousands of people by funding development projects including a hotel in Pafos worth of €60-70 million, a 75 MW photovoltaic park outside Nicosia where he plans to invest €100 million and a 75 MW private power plant in collaboration with Russian and Israeli partners that would cost several million Euro.

In order to support investments in Cyprus the government signed a loan agreement with the European Investment Bank (EIB) over €100 million to finance a number of projects within the National Strategic Reference Framework for the 2007 – 2013 period. A first loan of €200 million was granted in 2012. EIB President, Werner Hoyer, did not rule out the possibility of financing part of LNG terminal's construction.

With the aim to reduce spending, the government wants to implement cuts worth €1 billion over the next three years. This corresponds to a reduction of 10.9%, i.e. from €6.3 billion this year to €5.5 billion in 2014. There will be spending caps on all ministries and departments, hoping that by 2016 the government will produce a primary surplus. The government expects an economic contraction of 8.7% this year and 3.9% next year. For 2015 a growth rate of 1.1% is projected, for 2016 1.9%. Unemployment is expected to reach 15.5% for 2013 and 16.9% in 2014 before it drops to 14.6% in 2015 and 13.7% in 2016.

Chinese company 'China Glory National Investment' aims to invest €1.5 billion into Venus

Rock Golf Resort project in Ha Potami in the Paphos district. Part of the deal is a takeover of the interests of local developers Aristo Developers and Venus Rock Estates Ltd. worth €290 million. The project will include two golf courses, a five-star hotel, two community sports centers, commercial and leisure facilities and luxury private homes. The project is expected to create significant revenues for the state through direct and indirect taxes, but also to be an incentive for other direct foreign investments. This is in line with recent developments mainly in the Pafos area where last year between August and October more than 600 properties were sold to Chinese buyers. The intention of the great majority of China's 1.4 million dollar millionaires to send their children overseas for their education raises hopes for further property sales in Cyprus.

This goes hand in hand with a plan the government approved on 24<sup>th</sup> May to enable foreign nationals to gain citizenship. There are five options according to which the Cypriot citizenship can be acquired. First, there is the possibility to deposit €2 million in the state treasury in order to buy shares or bonds with the state-run investment company and also donate €0.5 million to the government's Research and Technology fund.

Another option is to invest at least €5 million in projects (purchase of houses, offices, shops etc.) with the intention to make use of it. Furthermore, companies founded and active in

Cyprus or shares of companies registered in Cyprus can be purchased.

The fourth option involves investments of donations worth at least €5 million towards the state.

The last option refers to the applicant's business activities over the last three years and the contributions and investments made. This means that he or she would have to be either a shareholder or main beneficiary of a company for the three years leading up to their application and the payment of fees worth €500.000 a year for the purchase of business services. If the applicant employs at least five Cypriots the fee would be reduced to €350.000 a year, if ten Cypriots are employed the fee drops to €200.000 a year. Furthermore, if any candidate had deposits in BoC or Laiki Bank that were cut by at least €3 million after March 15 they would also be eligible for naturalization. In case the loss is below that sum a combination with any of the other options might be possible.

Cyprus' national carrier is facing imminent bankruptcy. A restructuring plan by France-KLM suggests that Cyprus Airways has to dismiss 490 of its 1.040 staff, cut wages across the board and downsize its fleet by four aircraft to six. Furthermore, the airline will not remain state-owned but needs to be privatized in order to comply with EU regulations. So far, negotiations with potential investors have been without concrete results.

#### 4. Turkish Cypriots

The matter of natural gas retained its strategic significance during the month of May. Turkey's Energy Minister, Taner Yildiz, maintained that Israel and the Greek Cypriot-led Republic of Cyprus would be better off exporting natural gas via pipelines through Turkey rather than via the relatively costly project to construct a liquefied natural gas (LNG) installation in Cyprus.

Meanwhile work on water pipelines from southern Turkey to Morphou coast continued. A major milestone was recorded when it was reported that beyond the dam work the complex pipeline network was now being constructed under water. The project is scheduled to be completed by March 2014.

Media speculated that Greek Cypriot applications to the Turkish Cypriot Immovable Property Commission (IPC) would only increase in light of the unfolding financial and economic crisis in the Republic of Cyprus. It was reported that more than 2.500 Greek Cypriot applicants had already sought compensation (or exchange and limited reinstatement) from the Commission.

The international and economic isolation of the Turkish Cypriot community was highlighted during a number of ceremonies related to Europe Day commemorations on 9 May. During an event hosted by the Turkish Cypriot Chamber of Commerce (TCCC) President Dervis Eroglu reminded the international community and EU officials in particular of various pledges to lift

the economic isolation of the Turkish Cypriot community. Crucially, due to Greek Cypriot objections, a proposed Direct Trade Regulation never materialized. Eroglu's comments were echoed by the TCCC in a letter of protest addressed to the European Commission. For his part, Prime Minister Irsen Kucuk chose to highlight his government's commitment to harmonizing legislation and practices with the EU's *acquis communautaire*. Meanwhile the EU continued to provide assistance to the Turkish Cypriot community. In May an EU funded training program, the Sustainable Economic Development and Information Systems Program held a seminar in the Karpaz region.

Despite continued challenges on the EU front the TCCC announced cooperation with the Turkey Iraq Investor Businessmen Association (TIBAA) as part of an effort to increase trade with Northern Iraq in particular.

May also saw Turkish Cypriot teachers' unions hosting a conference held by Education International and the European Trade Union Committee for Education (ETUCE) with the theme of 'peace education'. Turkish Cypriot union leaders explained that the ETUCE conference had originally been scheduled for September 2012 but that Greek Cypriot objections had led to a delay.

The major development in May was the fall of the government and the scheduling of early elections for 28 July 2013. The government fell as the result of a vote of no confidence follow-

ing the resignation of eight dissident MPs from the ruling National Unity Party (UBP). The eight MPs resigned from their party after the Prime Minister initiated a disciplinary process to purge them.

The crisis within UBP had been a protracted affair. The leader of the eight MPs, Ahmet Kasif, had challenged Prime Minister Irsen Kucuk for party leadership in a party congress held in 2012. The congress ended in acrimony leading to legal contestation of the results. While Kucuk ultimately won by a wafer thin margin there was no attempt at a government reshuffle demanded by Kasif and his followers. The dissidents made a pact with opposition parties to bring down the government while Kucuk was in New York on a week-long trip to ostensibly promote the 'TRNC' in terms of tourism by partaking in the annual Turkish parade in New York City. His visit also coincided with Turkish Prime Minister Recep Tayyip Erdogan meeting with President Obama at the White House, indicating Kucuk attempt to rival President Eroglu in terms of representing the Turkish Cypriot community internationally. Underlining this Kucuk made numerous statements regarding the Cyprus problem and pending initiation of talks on the island while meeting with Turkish Foreign Minister Ahmet Davutoglu and even UN officials. Traditionally, and as a consequence of the non-recognition of the 'TRNC', Turkish Cypriots are usually led by the President as the United Nation's interlocutor as 'community leader'.

Kasif and the rest of the eight MPs sought a political alliance with Serdar Denktash' Democrat Party (DP) a right-wing smaller rival to the UBP.

Prior to the UBP crisis that led to the government's fall the agenda had been dominated by talk of whether and under what conditions a UN hosted dinner between the two community leaders would go forward at the end of the month. Eroglu together with Turkish diplomacy pushed the UN and others to prod the Greek Cypriot leader, President Nicos Anastasiades, on appointing a special representative for the talks so that the technical and procedural work could commence with a view to reconvening direct substantive talks on the Cyprus problem during 2013. However, Anastasiades prevailed and the dinner was deemed 'informal' inasmuch as the technical appointments remained pending.

## 5. FES Cyprus Events

### 07-09 June 2013

FES Cyprus / FES Athens / FES Istanbul

Conference and Workshop

#### Journalist Seminar

Chateau Status (in the Buffer Zone near Ledra Palace), Markou Drakou St. 12, Nicosia, Cyprus

Not open to the public



### 12 June 2013 7 pm

GOETHE INSTITUT / AUSTRIAN EMBASSY / FES

Talk with book-launch

**Remembering History – My always changing and adventurous life between the USA, Austria, Palestine/Israel and Cyprus from 1917 until today - Mrs. Elsie Slonim**

Goethe-Institut Cyprus hall (in der Buffer Zone next to Ledra Palace)

Open to the public



### 14-16 June 2013

IKME/BILBAN / FES

Seminar

#### Cyprus Voice Seminar

Venus Beach Hotel, Paphos, Cyprus

Not open to the public

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