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## 1. Cyprus Problem

As part of an effort to revitalize the deadlocked peace process, the European Commission appears to be considering the idea of returning the abandoned suburb of Famagusta, Varosha, to its rightful owners in exchange for legalizing the opening of the port of Famagusta and direct flights to Tymbou/Ercan airport in the north. Media speculated that Turkey is willing to see the Commission examining the proposal.

An opening of the airport and of Varosha, would not just be one of the most significant developments in the Cyprus question since 1974 but also provide a new impetus for the Turkish EU accession negotiations. Ankara had made it clear in the past, that the reopening of the port of Famagusta and the possibility of direct flights to Tymbou/Ercan would result in Turkey opening its ports and airports to Cypriot airlines and ships. This in turn would lead to the unfreezing of up to 14 chapters in Turkey's EU stalled accession negotiations which are blocked by the Greek Cypriots (6) and EU (8) because of the non-implementation of the customs union agreement with the Republic of Cyprus by Turkey.

The idea of reopening of Varosha in return for the opening of the port of Famagusta is not new. It had been unsuccessfully proposed by the Finnish during their EU presidency in 2006. The proposal failed because the Greek Cypriot side insisted on the return of Varosha under their administration while Turkey and the Turkish Cypriots demanded the opening of the airport in

the north in addition to the opening of the port of Famagusta. The Greek Cypriot side had proposed in the past the opening of the fenced off town of Varosha in return for opening the port of Famagusta under UN supervision but the opening of Tymbou/Ercan airport had so far been opposed by the Greek Cypriots, who objected to the internationally not recognised Turkish Cypriot authorities to run an airport. Foreign Minister Ioannis Kasoulides stressed therefore that such a move would not be allowed unless the matter of legality was clarified. The minister is believed to have raised the issue with his American counterpart, John Kerry, during their meeting in May. US ambassador in Nicosia, John Koenig, also promoted the idea that the return of Varosha could change the dynamics of the Cyprus issue in a positive way and could provide a good foundation towards a renewed effort.

On the other hand, Dervis Eroglu's spokesman Osman Ertug denied allegations that the EU is launching such an initiative to open Tymbou/Ercan in exchange for Varosha. Ertug alleged that the Greek Cypriots are trying to create an artificial agenda to draw attention away from the fact that the peace talks have not yet been resumed. Ironically, Greek Cypriot officials and the President, unlike Kasoulides, did not refer to the matter publicly, possibly out of fear of destroying the initiative due to hardliner reactions.

Meanwhile, legalization to the operation of the Tymbou/Ercan airport could also become a

financial headache to the government as it is committed to providing compensation to the operator of Larnaca and Paphos airports in the event that passenger numbers at Tymbou/Ercan reach above a certain amount. According to Turkish Cypriot reports 408,626 passengers arrived at the airport in the first four months of 2013 compared to 390,842 in the same period last year.

Earlier in the month, reports surfaced that UN Special Adviser Alexander Downer plans to head the Australian Embassy in Washington. Downer also confirmed that his plans to stand for the presidency of the South Australian Liberty Party will not affect his duties as UN Special Adviser in Cyprus. His position has lately come under question with the majority of Greek Cypriot political leadership openly criticising his involvement in Cyprus, even calling for his replacement. Moreover, the National Council is expected to decide collectively in July on the appointment of a chief negotiator who will represent the Greek Cypriot community this autumn when peace talks are due to start.

The Committee of Missing Persons (CMP) identified the remains of 72 missing persons during the first six months of 2013, indicating that the total number of identifications will reach a record since its establishment in 2006. The average number of identifications per year was 56. Greek Cypriot and Turkish Cypriot members of the CMP Aristos Aristotelous and Gulden Plumer Kucuk called on the European Commission to increase its funding towards the committee in

order to pursue its mission. Furthermore, the Committee on Civil Rights, Justice and Home Affairs of the European Parliament (LIBE) called on Turkey to grant CMP access to the military areas in the north, in order to investigate the fate of missing persons in Cyprus.

The bi-communal folk dance group Dance for Peace was awarded the European Citizen's Prize by the European Parliament among 42 other candidates from EU member states. The prize has been awarded since 2008 to organizations, which have contributed to promoting better mutual understanding and closer integration between people or to facilitate transnational cooperation within the EU. Dance for Peace was founded by Andria Kyprianou and Mehmet Eminoglu in 2001 with the aim of showcasing Cypriot traditions and highlighting the common characteristics of Greek Cypriot and Turkish Cypriots music and dance.

## 2. Hydrocarbons

During the month of June Cyprus intensified its efforts relating to the exploitation of its hydrocarbons resources which provide the only light of hope and a priority for the island to emerge from the current financial crisis. The Greek Cypriots are faced with the challenge of finding investors for the construction of a multi-billion LNG plant, the cornerstone of the islands energy policy.

On June 26, a statement of intent for the development of an onshore natural gas liquefaction plant (LNG) at Vasilikos was signed between the Republic of Cyprus (RoC), US firm Noble Energy International and Israel's Delek Drilling and Avner Oil Exploitation Limited Partnership. The preliminary accord demonstrated commitment of the government and the three companies to go ahead with the construction of the LNG plant. This has the potential of leading to a project agreement in December for setting up a joint venture between the parties, who seek investors for the construction of the estimated €7-8 billion LNG plant.<sup>1</sup> The final investment decision will be taken in 2015 or early 2016.

The agreement came a day after France's Total signed a Memorandum of Understanding (MoU) for investing in facilities to export gas from Cyprus. The agreement is believed to be related to President Anastasiades' official visit to France mid-June, where he met with Total's CEO Christophe de Margerie and French President Francois Hollande. The meeting revealed that the French company was interested in investing in the LNG plant and is willing to accelerate the process for the hydrocarbons exploitation and drilling for oil in the Cyprus Exclusive Economic Zone (EEZ). Total, which was offered drilling concessions in blocks 10 and 11, apparently will invest in a second LNG production line, known as a "train", estimated at €3 billion, as part of a

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<sup>1</sup> Estimations for the construction of the LNG plant vary with some raising the amount up to €12 billion which makes the LNG economically unsustainable in the absence of further substantial findings.

plan to construct a facility linked to several trains. The gas reserves of Block 12 alone are deemed sufficient for a one-train facility of 5 million tonnes per annum whose cost is estimated at €6 billion.

Earlier this month, Noble began appraisal drillings in its Block 12 concession to ascertain the viability of the venture. The threshold of making the LNG viable is 6 tcf. The appraisal is expected to last three to four months. Based on an initial drilling in 2011, the estimated amount of gas in the Aphrodite Block lies between 5-8 trillion cubic feet (tcf), with a mean of 7 tcf. The appraisal will establish the commerciality of the reserves in the block, allowing Cyprus to seek long-term contracts for gas sales, paving the way to seeking financing for the multi-billion euro LNG plant. The head of the Cyprus National Hydrocarbons Company, Charles Ellinas, argued that the estimated gas reserves in the particular block are sufficient to make the LNG plant viable and reiterated that Cyprus would welcome Israeli and Lebanese gas being processed at the facility of Vasilikos.

Meanwhile, the Israeli cabinet permitted the export of 40% of its own hydrocarbon finds, leaving the remaining 60% for domestic consumption. Israeli gas reserves are expected to total 900 billion cubic meters (bcm), meaning that the country will retain 540 bcm for domestic use and leave 360 bcm for exports. This quantity allows Israel, which is concerned with security issues, to diversify its export routes in several directions: Next to a pipeline to Jordan, Israel is

toying with the idea of exporting its gas through a direct pipeline via Turkey and possibly sending it for processing to the Cypriot LNG plant. In June a large scale Israeli air force exercise took place over large tracts of the Cyprus's EEZ including block 12 as part of the envisaged energy cooperation between the two countries.

The Turkish Foreign Ministry criticized the appraisal drilling in block 12 as demonstrating the unwillingness of the Greek Cypriots to act in collaboration with the Turkish Cypriots. The Ministry referred to a previous statement in March stressing that a two-state solution was possible if the Greek Cypriots were not willing to cooperate with the Turkish Cypriots in the north. Nicosia considered this as a pretext for promoting a two-state solution in Cyprus. Greek Cypriot media reported that Turkish warships were monitoring from a distance the seismographic surveys in block 12 of Cyprus's EEZ, although without harassing or interfering.

A proposed gas pipeline (East Med Pipeline) to link Cyprus to Crete and then Greece or Italy will be in an EU list of strategic projects for financial support according to Energy Minister George Lakkotrypīs and Cyprus's Energy Regulatory Authority chairman George Sammas.

### 3. Greek Cypriots

#### Domestic and Economic Developments

During the month of June, the government undertook efforts to amend certain provisions of the bailout package agreed between the RoC and the Troika<sup>2</sup> on the grounds of being ill conceived and poorly prepared. As part of the bailout Cyprus was forced to shut down Laiki Bank and seize deposits in Bank of Cyprus (BoC) to qualify for the €10 billion aid from its lenders.

In a letter addressed to European leaders in early June President Anastasiades urged the Troika lenders to provide a long-term and sustainable solution to liquidity issues faced by BoC, which absorbed assets from the wound-down Laiki Bank. Under the terms of the bailout agreement, BoC assumed a €9 billion liability from Laiki, which had been receiving Emergency Liquidity Assistance (ELA) from the European Central Bank since May 2012. Anastasiades suggested that part of the ECB assistance liability be converted into long-term bonds and transferred to a special vehicle. He also urged the ECB to restore the counter party status of BoC and an easing of capital controls initially impose to avert a bank run. His demands reinforced widespread fears in Cyprus of the collapse of the BoC if the confidence in the bank cannot be restored. The Boc is by far the biggest bank in the south.

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<sup>2</sup> The Troika of lenders is comprised of the European Central Bank (ECB), the European Commission and the International Monetary Fund (IMF).

The letter was discussed during a Eurogroup meeting on June 20. Comments made ahead of the meeting, however, indicated little support on the part of Cyprus's EU partners. The Troika rejected the idea of amending the rescue package while Eurogroup President, Jeroen Dijsselbloem, insisted that Cyprus cannot delay the implementation of the terms included in the bailout deal.

During an EU Summit on the 27 and 28 of June, Anastasiades met with German Chancellor Angela Merkel and other European leaders to voice his concerns regarding the problems the Cyprus economy is facing as a result of last March's Eurogroup decision. In contrast to foreign reports, Anastasiades clarified that Cyprus was not seeking to renegotiate the terms of the bailout but an adjustment of certain measures of the program.

The government's criticism mainly targeted the ECB's decision for providing Laiki with ELA since May 2012 although the bank was insolvent. According to ECB regulations it cannot provide ELA to banks which are considered insolvent. It is therefore criticised by some Greek Cypriots politicians and political observers for sharing the responsibility for the bankruptcy of Laiki and the current problems of the BoC. The ELA for Laiki amounted to around €9 billion which along with the addition of €2 billion ELA withdrawn by BoC is now burdening the later. The ECB defended its decision and argued that the possibility of a future recapitalization with public money meant that Laiki was still viable at the time. The ECB

further argued that ELA was the responsibility of the national regulator, namely the Central Bank of Cyprus (CBC). CBC governor Panikos Demetriades claimed that the ECB deliberately continued authorizing ELA to Laiki in order to protect foreign investors and to buy time for these investors to pull out ahead of the raid on deposits in March. Lawmakers considered suing the ECB and its President Mario Draghi. They also criticized the political decision to sell the Greek operations of Cypriot Banks as part of the bailout agreement which inflicted a €3.4 billion loss to the state.

The European Stability Mechanism (ESM) gave Cyprus €1 billion completing the first tranche of the islands financial assistance program. The first part of the tranche - €2 billion- was transferred in May.

Capital controls which have been in place since March are being further relaxed though far reaching limitations remain in place to avoid a bank run on the BoC. Specifically, the government allowed the termination of a fixed term deposit before maturity for the payment of real estate in the Republic. In addition, the government permitted Turkish Cypriots living in the north but working in the south to transfer amounts in excess of €300 per day, if they originate from a salary payment.

BoC is planning to close 30 branches and reduce staff by the end of July as part of its restructuring plan. The government also announced closure of three semi-state organizations. The wine prod-

ucts council and the milk industry board will be terminated immediately while the potato marketing board will be wound down in the following two years. The move will save the government €3.5 million per year.

Reforms to the definition of non-performing loans (NPF) have been announced in a draft directive issued by the CBC. Thus, the repayment ability of borrowers and not the actual value of the tangible real estate which is used as collateral is going to be considered. The NPL definition will be amended to include all loans due by more than 90 days.

The flow of deposits in the domestic banking system recorded a monthly drop of 9.96% or €6.34 billion in April according to data released by the CBC.

Fitch rating agency cut Cyprus' rating further into junk and warned more cuts could be on the way as the EU/IMF rescue program could fail. Standart & Poors Rating Services also lowered its long term and short term sovereign credit rating of Cyprus to selective default (SD).

According to Eurostat, Cyprus was registered among the countries with the largest decrease in employment in the first quarter of 2013 compared to the last quarter of 2012. Employment figures dropped by 1,3%. Cyprus' GDP fell by 1.3% in the first quarter of 2013 compared to a drop of 0.2% in the Euro zone and 0.1% in the EU 27, while unemployment figures for Cyprus in May reached 16.3% . According to the Statistical

Service the number of unemployed in the first quarter of 2013 reached 70.700 or 15.9%.

Consumer prices dropped for the second month as recently released figures for May indicate. Overall, the consumer price index decreased by 0.69%. More specifically, prices of clothing and footwear dropped by 4.38% whereas housing costs went down by 5.17%. On the other hand the cost for food, non-alcoholic beverages increased by 0.58% and transportation costs moved up 1.3%.

Within the framework of the EU agricultural programme 2014-2020 Cyprus secured an increase in the percentage of the co-funding by the EU from 50% to 73% which corresponds to €120 million.

The Cyprus Hotel Association expects that tourist bookings for July, August and September will compensate the losses of the previous two months. This is due to special packages as well as a 20-25% drop in prices. Furthermore, it is expected that there will be an increase in the hiring of unemployed people. At the same time, outbound tourism is dropping, which means that Cypriots will look for local holiday destinations. Furthermore, by extending the tourist season and the number of airlines and destinations, the number of tourists for the coming winter season is expected to rise by 70.000.

In order to promote the use of renewable energies the Cyprus government plans to fund photovoltaic systems for 2.000 low-income households. The costs of the programme will amount



to €5 million paid for by the Cyprus special fund for the development and promotion of renewable energies and energy efficiency. After parliamentary approval the programme is to start in 2013. It is estimated that the systems will help reduce the costs for the households by 80%. In the medium term the government plans to install more net metering. In this context, the University of Cyprus is leading a €1.3 million European research programme in net metering funded by the EU. Concurrently, ten new solar photovoltaic parks with a capacity of 1MW with an overall cost of €2.7 million were installed. Currently the overall capacity is at 25MW and is planned to go up to 100MW within the next two months.

### **Foreign Policy**

Cypriot Defense Minister Fotis Fotiou stated that the country is considering the possibility of providing `in certain cases` the use of the Andreas Papandreou Air Force Base for Russian military aircraft as well as the use of the Limassol port for Russian warships. This follows the announcement of Russian President Putin that the permanent presence of Russian warships in the Mediterranean in light of the Syrian crisis is to be restored. According to *Pravda*, the Mediterranean task force includes ten ships taken from the North, Baltic and Black Sea fleets on a rotating basis. Fotiou rejects any possible connection to the €2.5 billion Russian loan. The minister pointed out that there were no plans for a permanent Russian military basis in Cyprus.

## **4. Turkish Cypriots**

### **Domestic and Economic Developments**

The month of June witnessed a first in Turkish Cypriot politics: the fall of government through a vote of no confidence. Whereas early elections had already been scheduled for 28 July, Prime Minister Irsen Kucuk hoped that he would continue to preside as caretaker during the electoral campaign period. On 5 June a formal vote of no confidence was held. While 21 MPs voted against, 28 voted in favor with one abstention. Consequently Kucuk submitted his formal resignation to President Dervis Eroglu on 6 June.

The fall of government and the vote of no confidence was the culmination of a protracted internal struggle within the ruling National Unity Party (UBP). Following the resignation of 8 dissident MPs from UBP in May early elections became inevitable. Moreover, the 8, led by Ahmet Kasif, aligned themselves with Serdar Denktas' Democrat Party (DP) forging a coalition called Democrat Party-National Forces (DP-UG). Together with the Republican Turkish Party-United Forces (CTP-BG) and the Communal Democracy Party (TDP) there were sufficient votes to bring down the Kucuk's UBP government.

The opposition moved swiftly to install an interim caretaker government by agreeing on a common Prime Minister candidate. Upon consultation with all parties, President Eroglu determined that Sibel Siber had sufficient support to establish a government. Her government



was appointed on 13 June. Siber became the first woman prime minister in “TRNC”<sup>3</sup> history.

Siber’s government was portrayed as a team of technocrats, yet from the beginning the government engaged in a series of symbolic acts to differentiate the new coalition from Kucuk’s government. The Council of Minister’s first act was to strip a Turkish actor, Necati Sasmaz, of his title of cultural attaché granted to him by Kucuk’s administration. Sasmaz is known for his role in the popular yet controversial TV series, Kurtlar Vadisi (Valley of the Wolves) that merges the glorification of mafia and nationalism combined with anti-Semitism. The government also revoked controversial leases and building permits among a bevy of other symbolic decisions.

During the month, potential MP candidates jockeyed for position within party lists. Sureyya Gurses, who headed UBP’s women’s branch defected to DP-UG. Towards the end of the month parties finalized their lists for formal submission to the electoral board.

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<sup>3</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 settlement to the Cyprus problem (see Protocol no. 10 of the Accession Treaty).

Meanwhile, efforts were underway within UBP to purge President Dervis Eroglu from the party for his role in allegedly orchestrating the fall of the UBP government and the appointment of Siber’s interim government. In a parliament session Kucuk took the floor where he attacked the government claiming that it was ‘supported by the president’.

More dramatic was Ejder Aslanbaba’s claims of bribery. Aslanbaba, one of the 8 MPs who resigned from UBP in May and voted for the no-confidence motion was rebuffed by Serdar Denktas who did not want to include Aslanbaba in the party list as a candidate for the 28 July election. Aslanbaba, a controversial figure, declared in parliament that he had received approximately 6.000 Euro to partake in the no-confidence vote and that beyond this he had discussed how tens of thousands Euro worth of electric bills could be cancelled in the future. He released tape recorded conversations with Denktash and Kasif, as well as Eroglu. Whereas the recordings did not include smoking gun evidence the accusations were designed to undermine the credibility of the new coalition government, raising questions about Kucuk’s involvement in Aslanbaba’s statements.

Meanwhile, the electoral calendar and potential for a new government after 28 July increased risks that parts of the economic austerity package signed with Ankara would be subject to renegotiation. On 24 June, Turkish Ambassador Halil Ibrahim Akca underlined the importance of adhering to the package. Meanwhile the govern-

ment faced a setback when it failed to pay public sector employees on time at the end of the month, leading to speculation regarding the relationship between Siber's government and Turkey.

## 5. FES Cyprus Events

**07-14 July 2013**

FES Cyprus / WINPEACE

**Summer Youth Peace Camp**

Turkey



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