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FES NEWS

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1. Cyprus Problem

The President of the Republic, Nicos Anastasiades and Turkish Cypriot leader Derviş Eroğlu held a meeting on June 2 agreeing to conclude the current phase of the negotiations as soon as possible and to submit proposals on all core issues. The meeting which followed US Vice President, Joe Biden's visit in May is part of the agreement where the two leaders agreed to meet at least twice a month in order to expedite the process

Completion of the current phase will prove to be a challenging task as the agreement turned out to be a source of friction between the two sides which potentially could lead to a stalemate of the process. On the one hand, the Greek Cypriot side seems unwilling to proceed to the give and take process unless the Turkish Cypriot side submits its proposals on all chapters. In doing so, a discussion can take place across all chapters and on all key issues. These include the issues of territory, and security, which Turkey has up until now, been unwilling to discuss. The Turkish Cypriot side claims that they have put forward constructive proposals on all matters and are ready to discuss the issue of a future map of Cyprus and the property issue, if the Greek Cypriots agree to a road map that leads to a referendum. The two sides reverted to the usual blame game by accusing each other of intransigence.

On June 4, Greek Cypriot Negotiator, Andreas Mavroyiannis and Turkish Cypriot negotiator

Kudret Özersay continued substantive negotiations on property, federal legislature and federal executive. On June 18, the negotiators also discussed citizenship and EU matters, while on June 25 they covered internal aspects of security, residency and citizenship.

A second meeting between Anastasiades and Eroğlu planned for June 23 was postponed after Anastasiades faced health issues and was hospitalized. Future meetings are scheduled for July 4 and July 7 respectively.

During the President's visit to the closing ceremony of the Greek rotating Presidency of the European Council, Anastasiades called on EU leaders to exert pressure on the Turkish side to accept added EU involvement in the process. Meanwhile, Turkish Deputy Prime Minister, Bülent Arınç, was quoted by Turkish Cypriot daily Kibris, that the EU and Turkey could work together to produce permanent solutions to global crises, adding that the Cyprus issue was one of those global tests.

In a joint statement issued after a summit meeting on June 2, the Cyprus Chamber of Commerce and Industry (CCCI), the Turkish Cypriot Chamber of Commerce (TCCC), the Union of Chambers and Commodity Exchanges of Turkey (TOBB) and the Union of Hellenic Chambers of Commerce and Industry (UHCCI) expressed their support for the peace talks and determination to help in the process. They also announced the creation of the Nicosia Economic Forum that will meet on a regular

basis. The chambers' next meeting will take place in Istanbul on September 14. Additionally, the Cyprus Federation of Associations of Building contractors and their Turkish Cypriot counterpart signed a memorandum of understanding that stipulates both federations working together for resolving the issues concerning constructions and promoting cooperation so that any activity emanating from the reconstruction of Cyprus will benefit both communities.

2. Hydrocarbons

During the month of June, the Natural Gas Public Company (DEFA) completed its final phase of assessing the technical tenders for the supply of natural gas. A potential seven year contract could commence in January 2016. DEFA announced that all four bids for the supply of natural gas have so far passed muster and will continue to be evaluated.

DEFA will sell the gas to the semi-government electricity utility (EAC). The only bidder which has made its bid public is the Israeli consortium of Delek and Ratio. The other bidders are reportedly as follows: Swiss based Vitol; the Greek consortium M&M; and a consortium led by Socar, Azerbaijan's state oil company.

On June 16, Energy Minister Giorgos Lakotrypis, updated journalists regarding his meetings which took place earlier in the month

with officials from ENI and Noble Energy over their exploratory drilling activities.

The Italian-South Korean consortium ENI/KOGAS is expected to begin drilling by the end of summer for at least four exploratory wells in blocks 2, 3 and 9 in Cyprus' Exclusive Economic Zone (EEZ) which will last from 12-18 months based on the current findings.

Furthermore, Total's research programme in blocks 10 and 11 is expected to commence in the second half of 2015. With regards to Noble, its activities also concern a new exploratory reserve in Block 12. The Energy minister also revealed that discussions are taking place with officials from Deutsche Bank and the European Investment Bank in relation to the funding of a Natural Gas Liquefaction (LNG) terminal, if deemed viable.

According to Israeli business news site Globes, the China National Offshore Oil Corporation (CNOOC) is reportedly in talks to buy 30 to 40% of the Aphrodite gas field in Cyprus' offshore Block 12. CNOOC is interested in Block 12 as the estimated reserves there, around 4 trillion cubic feet, are ideally suited for a Floating Liquid Natural Gas (FLNG) solution. This would allow the Chinese outfit to export gas to Chinese companies. Globes also reported that Australia's Woodside, specialising in floating technology solutions, was sounding out Noble for a possible partnership in Block 12. Woodside had planned to buy 25% of Leviathan for \$2.71 billion, but withdrew due to disagreements over

export priorities following Noble, Delek and Ratio's preference for a regional pipeline rather than an FLNG for exports to East Asia.

3. Greek Cypriots

Economic Developments

On June 18, after three years of exclusion, Cyprus achieved the fastest comeback to international bond markets out of all bailed-out euro zone countries. This is due to selling a new €750 million/5 year bond, with an indicative yield of around 4.8%. The development was welcomed by all political parties including opposition AKEL and DIKO, whose initial harsh reaction was fairly subdued, as they were obliged to acknowledge that the return to the markets was a positive initiative which could contribute to investor confidence.

On June 2 the updated Memorandum of Understanding (MoU), a quarterly-updated list of reforms the Cyprus government needs to undertake as a result of the troika's¹ fourth review, was received. The main prerequisites for the release of the fifth tranche of aid, totalling approximately €600 million included the following: consolidating the Internal Revenue and Value-Added Tax departments into a single body; finalising foreclosure legisla-

¹The troika of international lenders is comprised by the European Commission, European Central Bank (ECB) and the International Monetary Fund (IMF).

tion on mortgaged properties; and introducing a Fiscal Council tasked with monitoring and publicly commenting on the government's budgetary strategy. The green light for the release of the fifth tranche was given during a Eurogroup meeting, on June 19.

Laiki Bank officially ceased to exist in June after its customer base and electronic systems were merged with Bank of Cyprus (BoC). The migration process which began months ago following the Eurogroup decisions of March 2013, was completed on June 9. The transfer involved around 1.1 million former Laiki customers including individuals and corporations, Cypriot and foreign, as well as guarantors.

European Stability Mechanism's 2013 report highlighted that despite the robust programme implementation in Cyprus, risks remain to the stabilisation of the economy. The greatest challenge is with the health of the financial sector. According to the ESM, key policy issues are Non Performing Loan (NPL) management which reached 47.6% in February, private sector debt restructuring and ensuring that banks' restructuring plans are fully implemented. From May 2013 until March 2014, a total of €4.6 billion has provided to Cyprus by the ESM.

According to the Central Bank, Cyprus' economy in 2014 could contract less than the 4.2% expected by the troika, to around 4%. Furthermore the CBC announced that bank deposits rose by €307.4 million in May reaching €46.9 billion while loans fell by €255.5 million to €61

billion, compared to a net decrease of €172.5 million in April. Local banks were also urged by the CBC governor to seek new capital from international markets. This is in order to boost their capacity to withstand the upcoming stress tests by the European Central Bank due to be announced in October. In particular the CBC governor, Chrystalla Georghadji, warned the board of BoC that resignations will be demanded if procedures to raise new capital are not completed by August of this year.

The Statistical Service announced that tourist arrivals in May 2014 totalled 293,181 compared to 276,244 in May 2013, marking an increase of 6.1 %.

Domestic developments

At a meeting held on June 18 AKEL general secretary, Andros Kyprianou, and DIKO leader, Nicolas Papadopoulos discussed the prospect of collaborating in an anti-memorandum front as well as working together on a parliamentary level.

4. Turkish Cypriots

On June 29, Turkish Cypriot voters went to the polls for local elections and referendum on a package of constitutional amendments.

In the municipal elections, fifteen out of the twenty-eight incumbent mayors were voted out. The number of municipalities won by each

party was as follows: Republican Turkish Party-United Forces (CTP-BG): 14; National Unity Party (UBP): 5; Social Democratic Party (TDP): 1; Democratic Party-National Forces (DP-UG): 1; and Independents: 7.

Although the senior coalition partner, CTP-BG has increased the number of municipalities it governs from eight to fourteen and came first in terms of total votes received, it experienced a setback in the municipal elections by losing three major cities it had controlled. The CTP-BG candidate in Nicosia, Kadri Fellahoğlu (32.97 per cent) lost to Mehmet Harmancı (37.90 per cent), who was supported by the TDP, the United Cyprus Party (BKP) and Baraka Cultural Centre. Oktay Kayalp (41.01 per cent) who has been mayor of Famagusta since 1994, lost to İsmail Arter (55.3 per cent), an independent candidate who was supported by the DP-UG and UBP. Sümer Aygın (36.51 per cent) who has been mayor of Kyrenia since 2002 lost to independent candidate Nidai Güngördü (43.91 per cent) who was supported by the UBP.

In the referendum, which was to a large extent overshadowed by the local elections, the constitutional amendment package, which had been approved unanimously by all four political parties represented in the parliament earlier in the month, was rejected by 62.32 per cent to 37.68 per cent. Of 175,258 registered voters, 122,642 (69.98 per cent) turned out to vote in the referendum.

The leader of the CTP-BG and Prime Minister Özkan Yorgancıoğlu expressed his disappointment over the rejection of the package by the voters stating that an important opportunity had been missed. Yorgancıoğlu said that he had regretfully witnessed that some of the political parties, which had approved the amendments in parliament had later campaigned for the rejection of the package.

Describing the result of the referendum as 'interesting,' the leader of the main opposition UBP, Hüseyin Özgürün provided a reminder that they had warned the other parties in parliament that the package had been rushed and that the referendum should have been held during next year's presidential election.

It is difficult to analyze the reasons behind the rejection of the package. On one hand it is not possible to talk about a monolithic "no" camp. Curiously, the referendum brought the far left and most conservative elements together. For example, the editors of the newspapers, pro-reunification Afrika and ultra-nationalist Volkan, both called for a "no". Groups on the left, which called for the rejection of the package, based their "no" campaign on the claim that the proposed amendments were "insufficient" and presented their stance as a "no" to the TRNC regime, while those on the right said the package was "rushed," and was imposed by the CTP-BG. However their opposition to the CTP-BG, which took the initiative to prepare the package, united the two sides. It is important to

note that the CTP-BG was the only party that actively campaigned for a "yes" vote.

The package included the following: the lifting of an article banning public servants from engaging in political activities; the establishment of children's courts and juvenile correctional facilities; the narrowing of the scope of the parliamentary immunity of the members of parliament; the extension of children's and environmental rights as well as certain civil rights; it made it possible to remove elected local organs from office if they act illegally or caused losses exceeding ten per cent of the budget.

Mustafa Akıncı, who has made a comeback to politics by actively supporting Harmancı in his election campaign, hinted that he may run for president next year.

On June 9, Turkish Cypriot leader Derviş Eroğlu met with the Turkish Prime Minister Erdoğan and Minister of Foreign Affairs Davutoğlu in Istanbul. The meeting, which lasted around one hour was closed to the press and as such no statements were made thereafter. Upon his arrival on the island, Eroğlu told reporters that he informed Erdoğan about the negotiations and that they discussed the US Vice President Joe Biden's visit to the island last month as well as the issue of Varosha.

Turkish Cypriot Minister of Foreign Affairs Özdil Nami attended the 41st Session of the Organization for Islamic Cooperation's (OIC) Council of Foreign Ministers in Jeddah, Saudi

Arabia. Addressing his counterparts, Nami touched upon the negotiation process on the island as well as the Turkish Cypriot economy. He said “the Islamic Development Bank in cooperation with the Turkish Cypriot Chamber of Commerce is implementing a very important project in the Turkish Cypriot State worth US\$ 15 million. The project envisages establishing an investment company in the form of a joint venture for the businessmen from [OIC] member states”.

In June, Nami had two working lunches with the Ambassadors accredited in Cyprus. The first one was held on June 13 and was attended by the Ambassadors of Germany, Italy, Slovakia, Denmark, Netherlands, Ireland and Poland. The second, held on June 25 was attended by the Ambassadors of Belgium, Austria, Finland, Spain, Sweden, Hungary and Australia. Nami informed the Ambassadors about the latest stage reached in the negotiation process and conveyed his opinions regarding how to overcome the existing deadlocks at the negotiations.

Meanwhile, former Turkish Cypriot leader Mehmet Ali Talat delivered a speech at a conference hosted by the University of Nicosia where he shared his views on the negotiation process, the issue of hydrocarbons, the water from Turkey as well as other issues related to the Cyprus problem.

According to the project manager of General Directorate of State Hydraulic Works (Turkey), the water transfer from Turkey to the northern

part of Cyprus will not be launched on July 20 as it had been announced due to delays caused by weather conditions. The manager said that so far only eight kilometres of pipes had been placed under the water.

According to the data released by the Turkish Cypriot Central Bank, exports in the first quarter of 2014 increased by 18.1 per cent compared to the first quarter of 2013 from US\$ 33,654,993 to US\$ 39,757,047. Imports in the same period declined by 11.3 per cent from US\$ 254,356,391 to US\$ 225,569,559. Remarkably, only 2.8 per cent of Turkish Cypriot exports went to the EU countries.

On June 21, the general assembly of Cyprus Turkish Football Association (KTFF) unanimously re-elected Hasan Sertoğlu as its chairman. Referring to the provisional arrangement signed between the KTFF and Cyprus Football Association (KOP) in November 2013, “the 1955-2013 period came to an end, and a new era for the KTFF and the country’s youth has started,” Sertoğlu said in his address to the General Assembly.

The head of religious affairs department, Talip Atalay announced that the restoration of Apostolos Andreas monastery in the Karpass peninsula will begin next September. The Church of Cyprus and the Turkish Cypriot religious foundation Evkaf will contribute €2.5 million each to the restoration works, which is expected to continue for the next two years. The tender of the restoration was won by a joint venture

made up of Turkish Cypriot and Greek Cypriot companies. Atalay said he is pleased to see that Turkish Cypriots and Greek Cypriots will be working together in the restoration project. Reportedly, a separate tender will also be launched for the restoration of the chapel and the fountain located next to the monastery.

On June 8, the bi-communal Sea Festival (Kataklysmos) organized jointly by the Famagusta Initiative and the 'Famagusta, Our Town' Initiative was held with a religious service in a church followed by a whirling dervishes performance at a mosque in the walled city of Famagusta.

5. FES Cyprus Events

July

Friday- Sunday 4.7. - 6.7. 2014

IKME / BILBAN / FES

Conference

Cypriots' Voice Conference

Flamingo Beach Hotel, Larnaca
Not open to the public



August

4. - 10. August 2014

WINPEACE / FES

Summer Youth Peace camp

Cyprus



22. August - 2. September 2014

IKME / BILBAN / FES

Deutsch-Zypriotisches Jugendaustauschprogramm

(German-Cypriot Youth Exchange programme)

Germany – Berlin/Hannover



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