



Contents

1.	Cyprus Problem	2
2.	Hydrocarbons	3
3.	Greek Cypriots	5
4.	Turkish Cypriots	7
5.	FES Cyprus Events	9

1. Cyprus Problem

July marked the 39th anniversary of the 1974 Turkish invasion which resulted in the occupation of Cyprus' northern third and the de facto division of the island. On July 15, 1974 President Makarios was ousted by the Greek Cypriot paramilitary organization EOKA-B, which was backed by the Greek military junta of Dimitrios Ioannides. Makarios was then replaced by the pro-Enosis nationalist, Nicos Sampson. The coup provided the pretext for the Turkish intervention five days later, on July 20.

The 20th of July is indicative for how the two communities perceive history differently and how different narratives are built: In the south it is perceived as an invasion, while in the north it is interpreted as a peace operation: memorials and sad anniversaries for some or a cause for festive ceremonies and parades for others.

On July 16, the National Council selected Andreas Mavroyiannis as the Greek Cypriot chief negotiator for the peace talks which are expected to resume in October. His selection fulfills the DISY's pre-election pledge to appoint an interlocutor other than the President of the Republic. Under a new regime at the National Council introduced by President Anastasiades, any resolution is binding for the president if there is a support by parties representing 75% of the electoral body at the latest parliamentary elections. In case of the president's disagreement he reserves the right to call for a referendum. The "Citizens Alliance" a newly formed

political group by George Lillikas is therefore excluded from the process as the group does not meet the minimum criteria. In order to be eligible for participation a political formation must be registered as a party and must have previously run in a parliamentary election and have at least one person elected in parliament. Mavroyiannis is currently the Permanent Secretary at the Foreign Ministry. In the past he served in a number of posts including: Cypriot ambassador to Ireland and France, member of the negotiating team during the bi-communal reunification talks between 2003 and 2008 and as Deputy Minister of EU Affairs during Cyprus's EU Presidency in 2012.

Foreign Minister Ioannis Kasoulides stated that the negotiations will not start from scratch but reiterated Anastasiades' intention to revise a limited number of issues. Anastasiades had campaigned in last February's presidential elections against certain provisions agreed between former President, Demetris Christofias and former Turkish Cypriot leader Mehmet Ali Talat, such as the weighted and cross voting in a federal government. Talat's successor Dervis Eroglu also rejected the provision, whereby the two communities would participate in the same elections and be able to vote for the same candidates.

Both Kasoulides and Anastasiades referred on separate occasions to the government's proposal to open the fenced-off part of Famagusta in exchange for allowing EU trade at the Famagusta port and in turn the unfreezing of

certain chapters in Turkey's EU accession process. The Turkish Cypriot made it clear, that it considers the opening of the fence part of Famagusta as part of a final deal and not as a confidence building measure in contrast to the Greek Cypriots. Moreover, Turkish Cypriot Leader Dervis Eroglu was quoted in Turkish Cypriot media saying that the next round of talks would be the last chance for a solution and repeated the view that Turkish Cypriots will not give up on Turkey's active and effective guarantees on the island.

The Cyprus Problem was among the subjects discussed between Greek Foreign Minister Evangelos Venizelos and his Turkish counterpart Ahmet Davutoglu as part of the former's one day visit on July 19, to Ankara. Moreover, US President Barack Obama affirmed his support towards efforts to end the division of the island through a just and lasting settlement. UN chief envoy for Cyprus, Alex Downer, expects that the peace talks will be resumed in October.

A report compiled by the Cyprus Center for Strategic Studies (CCSS) claims that Turkey has increased the number of its troops on the island by 7,000 this year. The report notes that from 2001-2012 the size of military forces on the island remained relatively unchanged. However, according to data for 2013 the Turkish army increased its presence in the north from 36,000 to 43,000.

UN Secretary General Ban Ki Moon recommended that the mandate of the UN Peace-

keeping Force in Cyprus (UNFICYP) be extended for a period of six months until January 31, 2014. UNFICYP's mandate expires on July 31 and the Security Council is expected to adopt a resolution for its renewal.

2. Hydrocarbons

On July 19 Turkish Minister of Energy, Taner Yildiz announced that Ankara will search for gas and oil in Cyprus's Exclusive Economic Zone (EEZ). The Turkish Cypriot Press and Information Office sent out a bulletin reporting Ankara's intent to make seismic studies in an area covering 10,500 km including the Republic of Cyprus' Exclusive Economic Zone (EEZ). Yildiz has described Nicosia's gas and oil exploration initiative as a provocation and called for its immediate halt based on the argument that any natural reserves belong to both sides. Turkey disputes Cyprus's rights over its EEZ arguing that islands do not have the right to delineate an EEZ and that Cyprus' EEZ overlaps with Turkey's continental shelf claims. This is the result of the Turkish policy which does not recognize the RoC as a sovereign entity. Consequently, Turkey claims blocks 1, 4, 5, 6 and 7 in Cyprus' EEZ and has issued oil drilling permits to TPAO, Turkey's national oil company, to areas as far as Rhodes.

Minister of Defence, Fotis Fotiou, stressed that Turkish threats will not change Cyprus' plans as regards its energy policy. The House plenary in

Nicosia approved amendments to existing legislation on the Continental Shelf allowing Cyprus to designate security zones around the installations in its EEZ and Continental Shelf. Moreover, the government is looking into the purchase of two Israeli warships to protect its EEZ. The warships will cost €100 million payable over a 17-year period. In the meantime, an Italian-flagged research vessel, which conducted sonar research for laying fibre-optic cables off the Paphos coast in the EEZ of the Republic of Cyprus was harassed by a Turkish gunboat.

The Cabinet appointed a team responsible for negotiating with Noble Energy and Delek the development of natural gas within Block 12 as well as the construction of the gas liquefaction plant (LNG). The members of the team are:

- Stelios Chimonas, Permanent Secretary at the Trade and Energy Ministry,
- Nora Nicolaidou, State's Attorney,
- Stelios Koundouris, Treasury Accountant,
- Eleni Vasiliadou, Chairman of the Natural Gas Public Company (DEFA),
- Odysseas Michaelides, Director of the Ministry of Communications and Works Department of Control
- A member representing the Cyprus National Hydrocarbons Company (yet to be announced).

Talks are expected to last for six months with a target date of December 31, 2013 specified for the completion and signing of a follow up agreement. The exclusion of the Cyprus

National Hydrocarbons Company KRETYK from the negotiations resulted to the resignation of the Executive Vice Chairman, Solon Kasinis.

The government's energy plans were discussed during a meeting between the troika of international lenders and officials from the Energy Ministry and DEFA.

On an another font, negotiations continued between DEFA and preferred bidder Itera for importing natural gas as part of an interim solution for covering domestic electricity needs until Cyprus is able to exploit its own reserves. Itera's proposal involves bringing natural gas to Cyprus by 2015, at \$16 dollars or \$17 per million British Thermal Units (BTU)¹. Media speculated that Noble has informally proposed an alternative and cheaper method for bringing natural gas from its Block 12 concession for domestic electricity needs by deploying a spar platform². Noble's proposal involves bringing the fuel to Cyprus at \$12 per million BTU as of January 2016. Current electricity costs are estimated at \$18 per million BTU.

According to Australian reports, Australia's Woodside Petroleum Ltd is considering joining the LNG construction in Cyprus instead of Israel. Woodside had planned to acquire 30% of the rights to Israel's Leviathan natural gas field and to build an LNG in Israel for gas exports in the Far East. The company is reconsidering this plan

¹ BTU is a traditional unit of energy

² A spar platform can drill and produce natural gas from a well faster than conventional drilling rigs

following the preliminary accord signed in June between the Cypriot government and US–Israeli partners Noble and Delek, for the development of an onshore LNG plant.

ENI's chief executive officer, Paolo Scaroni announced the Italian energy company will start exploratory drilling for natural gas offshore Cyprus in the second half of 2014. Furthermore, French energy company Total is interested in buying a 30% stake in block 12 from Noble Energy and its Israeli partners.

3. Greek Cypriots

A Troika³ delegation arrived to the island on July 17th in order to review the implementation of Cyprus' adjustment program, following the €10 billion bailout agreement reached last March. The evaluation will determine whether Cyprus will receive the next tranche of its international rescue package next September.

The Troika conducted meetings with a range of stakeholders at the Central Bank and Finance Ministry. Negotiations were held firstly, over the final figure of the haircut for the uninsured deposits of the Bank of Cyprus and secondly over the interest to be imposed on the cooperative banking institutions for the €1.5 billion estimated for their recapitalization.

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

After protracted talks a final figure of 47.5% of deposits exceeding €100,000 in BoC was agreed to be converted into equity in order to recapitalize the bank. Under the bail in agreement concluded in March authorities initially converted 37.5% of uninsured deposits into equity and held an additional 22.5% in reserve until a final audit of the unified BoC was concluded by KPMG London. The remaining 12% which were frozen will be unblocked. The agreement on the final figure of the bail-in of uninsured deposits paves the way for the bank to finally exit state administration. This will in turn allow the bank to conduct monetary policy operations and eventually lead to the gradual removal of capital controls imposed since March to prevent a bank run.

The Troika mission also scrutinized the early retirement scheme of BoC employees. The scheme which aims to cut staff by 1,000 provides that those who opt out would receive a month's salary for every two years of service plus five monthly salaries while compensation given would be up to €150,000 for each person. BoC staff numbers reached 5,600 after absorbing 2,400 from Laiki Bank which was resolved under the terms of the bailout. It currently operates 202 branches from which 17 were closed in July while 12 more will be closed by August 2. A further 20 branches will be closed after August 2.

The matter of breaking BoC into two, separating banking operations and real estate holdings through the creation of an asset management

company was also discussed. Essentially the real estate arm of the bank would amass all the non-performing loans linked to real estate property with a view to auctioning off the properties to raise cash and alleviate the banks liquidity problems. The bank's Emergency Liquidity Assistance (ELA) will be split into two, one part going to the retail business and the other to the real estate arm.

Representatives of the Troika also met with the leadership of the Central Cooperative Bank. According to the terms of the bailout, cooperatives must drastically shrink in number and be supervised by the Central Bank of Cyprus. Agreement was reached with the Troika on the downsizing of the number of cooperatives from 90 to 18. The method of refinancing the movement became the issue of speculation. The IMF confirmed that the movement will be recapitalized without a depositor bail-in. The Memorandum of Understanding (MoU) for the €10 billion stipulates that the €1,5 billion earmarked for the recapitalization of the Cooperative movement will be loaned using the EU's rules on state aid. The Commission thus calculates an interest rate of around 10% on the loan.

The Troika also held meetings with officials from the Energy Ministry and DEFA, representatives of international banks in Cyprus, officials from the Ministry of Health, the Cyprus Ports Authority (CPA) board, the telecoms authority (CYTA) and the Electricity Authority of Cyprus (EAC).

The delegation delivered their verdict to the government which in turn will give its own feedback. Reports referred to a positive result by the islands lenders praising the government for meeting its objectives but also warning of substantial risks.

On another front, the government is considering the creation of a one-off global casino resort expected to attract millions in investment and tourism. There are, however, critical voices, which question the viability of a casino resort within the Cypriot context and prefer a number of smaller casinos across the island.

Anastasiades also announced the complete reform of social policy based on the principle of securing a guaranteed minimum income for all citizens, provided they meet certain criteria. The reform which is expected to be fully in place by June 2014 will take into consideration the needs of every citizen and household concerning nutrition, clothing, consumption of electricity and other indispensable items. It will also include unemployed graduates of schools and universities and working people with low earnings.

According to Eurostat unemployment grew from 15.8% in April to 16.3% in May. In June Cyprus reported the highest annual unemployment rate increase on a year to year basis from 11.7% - 17.3% raising the number of unemployed to 78,000.

The massive withdrawal of capital from the island continued in the last months. In June

alone, the deposits in banks in Cyprus fell by 5.3 Billion Euro to 50.67 Billion. The value of deposits had still been 57.37 Billion in April. In June 2012 i.e. before the bail in, 70.77 Billion Euro had been on Cypriot accounts. Private sector deposits in main Cypriot banks, the BoC and Laiki Bank, fell In June 2013 by 7.6% to €37.6 billion after a 2% fall in May. The government announced a new tax amnesty to repatriate capital by the 31st of December.

The loss-making national carrier, Cyprus Airways, which has received substantial government funding over the years might have to suspend its flights if a proposed restructuring plan is not implemented. The restructuring of the airline needs the approval of the EU Competition Commissioner. If the permission is granted the airline's fleet would be downsized and there would be substantial lay-offs down to 385 employees from previously around 1,000. There would be wage cuts and a subsequent wage freeze as well as the reduction of the airline's contribution to the provident fund. The calculation by KPMG London foresees that the company could be in the profit zone from 2015 on. However, should the Cyprus problem be solved and Cypriot planes be allowed to fly over Turkish airspace, then the government would not have to pay €5m a year in compensation to the airline which in turn would change the calculation and have negative financial repercussions for the airline. Furthermore, Tymbou/Ercan airport in the north would be open to international flights, bringing other airlines to Cyprus.

4. Turkish Cypriots

The climax of the month of July was the 28 July parliamentary elections that followed the fall of government in June. During the month there was much speculation regarding the eventual outcome given the rift within the National Unity Party (UBP) that saw a splinter group resign and join a rival center-right party, the Democrat Party (DP) to form a coalition party called Democrat Party-National Forces (DP-UG). UBP, headed by Irsen Kucuk, was now at loggerheads with its former leader, President Dervish Eroglu who tacitly supported DP-UG.

As the drama unfolded between UBP and DP-UG a caretaker government headed by the Republican Turkish Party (CTP-BG) sought to benefit from taking bold, if symbolic action in repealing a number of acts of the previous government headed by Kucuk in an attempt to highlight alleged corruption.

The government faced an environmental disaster in the form of an oil spill in mid-July but was quick to capitalize by associating the calamity with the policies of the previous government that aligned itself with the interests of a private company, AKSA, which was responsible for the Kalecik/Gastria oil spill off the coast of Famagusta bay near Iskele (Trikomo). Although the case remained undecided pending an expert's environmental damage report commissioned by the government, the thrust of events worked against Kucuk's electoral fortunes. Polls revealed the relative popularity

of the caretaker Prime Minister, Sibel Siber of CTP-BG, who was also the first woman to occupy that office.

The commemoration of the 39th anniversary of the Turkish intervention of 20 July 2013 was attended by Turkish officials, including Minister for Cyprus Affairs, Beshir Atalay. However, Prime Minister Tayyip Erdogan did not pay a visit.

Parliamentary elections were held on 28 July. Election results were announced in the evening. Overall turnout was low for 'TRNC'⁴ standards, just below 70%. Moreover, the split within UBP prompted voters to vote for specific candidates cross-party lists rather than stamp for a political party and select candidates within a single party. Consequently, the rank order of candidates was not as decisive as in previous elections. Remarkably Irsen Kucuk, a seven term MP and former Prime Minister, failed to get reelected to parliament.

⁴ 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).

While the demise of UBP's party leader, Kucuk, was the big news of the night, other former Cabinet Ministers were also ousted from parliament, as well as other incumbents. The biggest electoral reversals were with UBP. Necdet Numan, UBP general secretary also failed in his bid to get reelected, as did former general secretary, Ertugrul Hasipoglu.

The rejection of incumbents was not restricted to UBP however. Famous names from CTP-BG, including Fatma Ekenoglu and Sonay Adem also fell by the wayside.

New faces emerged challenging the pecking order of established parties. While CTP-BG proved the most popular party securing over 38% of votes cast, its leader, Ozkan Yorgancioglu only managed to place fourth in his party in the Nicosia district, well behind Prime Minister Sibel Siber. Overall the incoming parliament would be younger and potentially more dynamic, given the reformist and activist profile of some of the newly elected parliamentarians.

Overall, CTP-BG received 38.37% of the votes, which translated into 21 seats in the 50 seat parliament, insufficient to govern alone. CTP-BG was likely to consider a coalition government with DP-UG that did better than expected, receiving over 23% of votes cast and was rewarded with 12 seats.

While UBP did marginally better at 27% and 14 seats the results made it likely that Kucuk would have to submit his resignation in short order and that the party would not likely be part of a

coalition government. Meanwhile, the Communal Democracy Party (TDP) tallied a relatively disappointing 7.43% and received 3 seats.

5. FES Cyprus Events

Monday, 26. August 2013, 20:30

IKME / FES

Movie and discussion with the director

Akamas By: Panikos Chrysanthou

Bar Sousami, 8, Kitiou Kyprianou, Limassol

Open to the public



Monday, 16. September 2013, 19:30-22:00

POLITEIA CYPRUS / FES

Conference

Celebrating Democracy Day: Perspectives from Cyprus and the Arab Spring (tentative title)

UNESCO Amphitheatre, University of Nicosia

Open to the public



Friday, 20. September 2013, 19:00

GOETHE INSTITUT / CYPRUS ACADEMIC FORUM (CAF)/ FES

Lecture by Thorsten Kruse

A Remarkable Triangle Relationship in the Cold War: Cyprus and the Two German States in the Period from 1960 until 1972

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

Open to the Public

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