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Pretext

Debates and negotiations for political alliances have started quite early for next year's Presidential elections in the south, disrupting the island's summer mode that usually dominates August. The presidential battle will take place on various levels and subjects in what is characterized a challenging and difficult period for the Greek Cypriots: The ailing economy and the Cyprus problem seem to be the most favourable fields of contrast between the contestants, recently followed by the exploitation of the natural gas findings. The Turkish Cypriot's economy, also in recession, dominates the public discourse in the north. But what really attracted attention on both sides was the sentence and conviction of former fugitive tycoon Asil Nadir. The beginning of the Mari Trial nearly a year after the deadly explosion, also counts as an important development which marked this month's events.

1. EU Presidency

Unfortunately, Cyprus assumed the EU Presidency at a time when it is itself in a bad economic condition and needs help from the EU bailout mechanism. Unlike the financial situation, so far everything else seems to be running smoothly for the Cypriot Presidency and there has been no real criticism regarding the handling of any dossier. However, the Presidency is still in the early days and due to the

summer recess there is a lull in the activities of the EU.

In addition, problematic issues like the budget of the European Union for 2014-2020 which will be based on the Multiannual Financial Framework (MFF), agricultural and regional reforms and of course the Eurozone crisis are scheduled for in depth discussion later in the year starting from September.

The Informal Meeting of Ministers and State Secretaries for European Affairs was one of the events that attracted attention after nearly a month of summer recess. It was scheduled to take place in Nicosia on the 30th of August and was dedicated to furthering the negotiations of the 2014-2020 MFF. During the meeting, the Ministers were joined by Members of the European Commission, the Council Secretariat and the European Parliament.

Discussions focused on the Presidency's Issues Paper that was prepared on the basis of bilateral meetings held in July among Member States and the Presidency. Member states expressed their positions on orientations provided by the Presidency, including the total level of the MFF, the level of spending and content under each heading/subheading, as well as the revenue side. The goal of the Cyprus Presidency is to reach an agreement by the end of 2012, in line with the European Council conclusions of June 2012.

Further high level and informal meetings are planned for September. Therefore a challenging month lies ahead.

2. Cyprus Problem

Since 2008 Greek Cypriots and Turkish Cypriots have been engaged in UN-backed negotiations aiming to reunify the island under a federal roof. But the talks reached a stalemate, with both sides blaming each other for their intransigent stance at the negotiations table.

In light of the presidential elections taking place in the south in February next year, the Cyprus problem, although losing ground to another national issue, namely the economy's ailing condition, as always will play a key role in determining the line that Greek Cypriot parties will follow and will have an impact on possible political collaborations.

The term bicomunal, bizonal federation is what has recently been a main point of discussion. Those who reject the terminology advocate a paradigm shift so that negotiations can start on a different basis.

The first camp represented by Presidential Candidate Giorgos Lillikas and EDEK, supports the view that what had been signed nearly 35 years ago is now perceived as a major concession by President Makarios, justified in an environment of further threats and instability which followed the 1974 invasion and cannot work

nowadays, especially in light of recent developments occurring in the region. They are willing to withdraw proposals made by President Christofias and specifically reject the term "bizonal", claiming that this type of federation would allegedly increase competition between the communities rather than bringing them together.

Presidential candidate and leader of DISY, Nicos Anastasiades, who is currently in discussions with DIKO to seal a political partnership, is also willing to withdraw proposals made by President Christofias, but in contrast to Lillikas does not reject a "bicomunal bizonal" solution. However, he is not willing to accept another Annan plan. According to Anastasiadis, a possible second rejection of a similar plan by the Greek Cypriots will simply end any discussion over the Cyprus Problem.

On the other side, the government's stance reflects the opinion that the Greek Cypriot side must remain focused on the basis of the Cyprus negotiations as agreed between the two communities and as it is stated in the relevant UN resolutions, otherwise there might be partition of the island. *"If the negotiations start from a new basis, or if the process of the talks changes, the Turkish side will have the perfect alibi to eradicate the basis for a solution and to bring the issue of partition to the table, something that will lead to new adventures and new risks for our people"* government spokesmen Stefanos Stefanou stated.

With the negotiations table currently creaking to collapse, the recent debate emerging in the south in light of next February's Presidential elections could prove to be a 'boumerang' undermining the Greek Cypriot credibility.

3. Hydrocarbons

Following the expiration of the three month bidding period, 15 bids from five companies and ten from joint ventures were submitted on the 11th of May for the second licensing round concerning the Republic of Cyprus' offshore hydrocarbon reserves. Bids were submitted for nine of the 12 offshore blocks, comprising the Cypriot Exclusive Economic Zone (EEZ). But until it is able to extract its own gas from Block 12 in its EEZ, the government seems to be proceeding with the decision to import natural gas, as an interim solution.

According to Government Spokesman Stefanos Stefanou, the Cabinet has decided to authorize Natural Gas Public Company (DEFA), in collaboration with the Electricity Authority of Cyprus (EAC), to prepare the documents for the announcement calling for expression of interest in bringing natural gas to Cyprus the soonest possible. Stefanou explained that this is a temporary solution until the exploitation of Cyprus hydrocarbon reserves is possible, approximately around 2017 or 2018. Stefanou further stated that the framework for the call of interest and the evaluation process for selecting

the natural gas supplier will be determined by the competent ministerial committee, comprising the Ministers of Commerce, Finance, Agriculture and the Deputy Minister to the President. The process to find an interim solution will be conducted in parallel with the one of the competent committees set up to deal with natural gas issues.

This explains why a group of technocrats set up by Commerce, Industry and Tourism Minister Neoclis Silikiotis, who recently participated in an international conference on hydrocarbons organized by the Offshore Northern Seas Foundation, will be visiting Israel on September 2 to discuss technical and financial issues of transporting natural gas in a compressed form, from Israeli Block Tamar to Cyprus by the end of 2015. The Cypriot committee comprises officials from the Energy Service at the Ministry of Commerce, Industry and Tourism, representatives of the Cyprus Energy Regulatory Authority (CERA), as well as officials from DEFA and EAC.

The Israelis will be ready to provide Cyprus with natural gas no earlier than 2013, around the time when their Tamar offshore field is expected to come online. Given that Cypriot needs are small, just enough to generate some 450 MW of power at the Vasilikos power plant, Israel which views its natural gas resources as a matter of national security, will probably not have a problem with selling natural gas to Cyprus. This will have a positive impact on the cost of electricity production and provide a huge relief for Greek Cypriot citizens, taking

into consideration the ailing economy and the fact that Cyprus's electricity bills are among the highest in the European Union.

A three way meeting is also to be held in September between Cyprus, Greece and Israel regarding with regards to energy collaboration with 3 possible outcomes emerging: Firstly, the construction of a Liquefaction Plant in Cyprus which will also process Israeli gas, with the liquefied fuel then transported by ship to markets. Secondly, a subsea gas pipe connecting Greece and Cyprus and thirdly, the construction of plants based in Cyprus which will transform gas into energy which will then be transported via subsea cable to Greece.

Additionally, Noble Energy will apparently commence appraisal drillings within its Block 12 concession sometime between this October and March next year. The Texas based firm invited bids for two separate contracts which, taken jointly, suggest that it is pressing forward with the natural gas field. Subsea testing is said to cost around US \$350 million. Analysts say the total tab for developing the Block 12 prospect, including all the facilities for subsea testing as well as the pipelines, could cost around US \$3.5 billion.

4. Greek Cypriot

Economic Developments

Without doubt, Cyprus is experiencing the worst recession of the last three decades. Unemployment levels keep rising with the number of registered unemployed reaching 36.452 for July (10.7%) an increase of 33,5% within one year! Jobless benefits cost nearly 75 million euro for the first half of the year, while according to preliminary data released earlier this month, Gross Domestic Product for the second quarter of this year has further contracted by 8% of the GDP in comparison to the first quarter's 4% decline. The effects of the recession are evident on the high streets with retailers closing down and many shops remaining vacant.

The government, although in negotiations with the so called Troika for EU bailout funds, is still pinning its hopes on a loan from Russia to fund part of its needs and allegedly mitigate the conditions that would accompany a bailout. It is no secret that the government's invitation to the Troika to come to Cyprus has been half hearted. The Troika clarified before its departure last month that the austerity measures will be painful. The president would not be too keen on signing a bailout providing for 15% pay cuts in the public sector, reductions of state pensions and privatizations of semi governmental organizations. Public sector unions are already pledging to resist any austerity bailout. The recession has not left one of the wealthier

institutions untouched. Even the Church of Cyprus is looking into cutting expenses faced with diminishing revenues. Archbishop Chrysostomos announced that wages will be cut for church employees.

Additionally, a new restructuring plan for troubled state controlled Popular Bank has been announced by Andreas Phillipou, the new chairman who replaced outgoing chairman of the board Michalis Sarris, who was forced to resign by the government. The plan will be based on reducing the size of the bank, which will likely mean reductions in staff and activity. Sarris' ouster followed the resignation of Bank of Cyprus (BoC) Chief Executive, Andreas Eliades, early in July. BoC Chairman, Theodoros Aristodemou, also resigned recently citing health reasons

Meanwhile a 600 million euro investment by a Chinese firm Far Eastern Phoenix (FEP) which proposed developing the old Larnaca airport into a commercial centre is in danger of collapsing. The potential multimillion euro deal between the government and Chinese businessman behind the company Yang Qi, was brought into serious question following revelations that the head of the president's diplomatic office Marios Ieronymides and his wife were personally involved, raising issues of transparency and conflict of interest.

Ieronymides, Cyprus's former ambassador to China had accompanied the Chinese business-

man at the signing ceremony with airports operators Hermes in March. He also escorted Yang Qi to two other high level meetings with Cypriot officials. Ieronymides' wife Tatiana had previously served as co-director of FEP for three years but resigned in March just six days before the signing. Ieronymides was eventually forced to step down and moved to the foreign ministry after he acknowledged that his presence at the meetings was not appropriate.

A deal was first reached between FEP and Hermes a year and a half ago for a 19 year period, when the latter's concession agreement on the old airport expires. The Chinese company sought to extend that deal for a further 31 years to justify the large investment. However, finalisation of the 50-year agreement hit a number of snags, with the state remaining unsure as to whether to approve the deal or not.

Domestic Developments

DISY leader and presidential candidate, Nicos Anastasiades, met with DIKO leader Marios Garoyian on the 17th, in order to seal a possible collaboration for next February's presidential elections, opening the door for further support from other minority opposition parties EVROKO and the Greens. The meeting followed EDEK's support to presidential contender Giorgos Lilikas and ruling AKEL's decision to go solo in supporting the candidacy of Health Minister Stavros Malas. AKEL endorsed Malas candidacy

last month who is the preferred choice of President Christofias.

The DISY-DIKO partnership headed by Anastasiades and Garoyian will allegedly work on formulating a common election manifesto, focusing mainly on the Cyprus problem and the economy. The two party leaders are expected to tie up most loose ends before DIKO's central committee takes a final decision in mid-September. DIKO leader Garoyian spoke of forming a "government of national salvation". If the attempt to form an alliance with DISY and other parties of the in-between space namely EVROKO and the Greens fails, then DIKO will go alone in 2013's elections.

During the 2004 referendum on the Annan Plan but also during most of the DIKO backed presidency of Christofias, both parties were found in opposite camps regarding the Cyprus question. Anastasiadis had supported a yes vote in 2004 and backed most of Christofias' concessions in the ongoing talks, while President Papadopoulos (DIKO) headed the no campaign in 2004 and DIKO opposed all significant concession of the Greek Cypriot side since 2008. Consequently, DIKO wants DISY to clarify its positions on the Cyprus problem and specifically on:

- Withdrawing proposals submitted at the negotiation table by President Christofias (namely the rotating presidency proposal, weighted voting and 50 000 settlers to stay post-solution),
- The role of the Annan plan in the talks
- The appointed negotiator's role and powers
- The role of the national council and
- Anastasiades's proposal to include Turkey in the talks

Following a meeting on the 30th the two parties reached an agreement regarding the handling of the Cyprus problem. They particularly agreed that an active involvement of the EU should be sought in any new effort for the national issue and that Turkey would be accountable for any proposals tabled by the Turkish Cypriot side. They also agreed that any decisions would be discussed with other political parties at the National Council and that any effort should be the result of dialogue and consensus. The meeting was marked by the absence of Nicolas Papadopoulos, DIKO vice president and son of former president Tasos Papadopoulos, raising speculation of disagreement within the party. Further meetings between the two parties have been arranged for September.

A tentative list of names is already under discussion for the position of chief negotiator in peace talks should Anastasiades win next February. The list includes the names of Garoyian, independent Mari investigator Polys Polyviou and Cyprus Ambassador to the UN Nicos Emiliou.

In addition, Attorney General Petros Clerides while addressing the Assize Court in Larnaca, stated that each of the six defendants in the

trial concerning the blast at the Evangelos Florakis naval base at Mari last year, bear personal responsibility over the death of the 13 sailors and fire fighters on the morning of July 11, when the confiscated munitions from 'Monchegorsk' stored in containers and exposed to the elements for two years exploded. Clerides added that it was the actions or omissions of the defendants that failed to avert the explosion, although the six knew or should have been aware of the dangers concerning an eventual explosion. On trial are former Foreign Minister Marcos Kyprianou and former Defence Minister Costas Papacostas, former deputy chief of the National Guard Savvas Argyrou, former director and deputy Director of the Fire Service Andreas Nicolaou and Pambos Charalambous respectively, and commander of the disaster response squad (EMAK) Andreas Loizides

At the London Olympics a 22 year old from Limassol wrote history. Pavlos Kontides won a silver medal in men's laser. This was the first medal ever for the Republic. The island's Olympic medallist was honoured by the President for his achievement, with the Cross of the Order of Merit of the Republic of Cyprus.

5. Turkish Cypriots

Economic Developments

The state of the Turkish Cypriot economy in the midst of recession remained a salient agenda item during the summer. The 'TRNC' government and the Turkish Embassy emphasized economic progress, citing macroeconomic indicators. Political opposition parties and unions attempted to discredit the government's spin, pointing to high unemployment, contracting GDP and declining discretionary income.

A monitoring report published in late July by Turkey's Chief Advisor to the Prime Minister on Cyprus Affairs determined that nearly all transfers from Turkey to the 'TRNC' for fiscal year 2012 had been spent in the first three months alone. The report called for fiscal reform, citing excessive public sector employment. Attrition was the recommended method.

Finance minister, Ersin Tatar, declared that while 13th salaries would be retained, no wage increases, with the exception of cost of living adjustments (COLA) would be possible. The State Planning Office, in turn, determined relatively low inflation statistics, leading to consternation among political opposition parties, labor unions, as well as some economists.

Prime Minister Irsen Küçük expressed his determination to implement austerity measures. At a press conference attended by his cabinet, he pointed to a narrowing budget deficit and increase of 30% in government

revenue as evidence that economic policies were bearing fruit from a fiscal standpoint.

The Turkish Embassy Aid Commission published a report on aid to 'TRNC' for the year 2011.

Domestic Developments

The banner headline in August was the conviction and sentencing of Asil Nadir in London. Nadir, a former fugitive tycoon, had voluntarily returned to the United Kingdom in 2010 to face charges of theft from Polly Peck International (PPI). He had been a fugitive in the 'TRNC' for 17 years. In the 1980s through early 1990s Nadir rivaled the 'TRNC' state as a source of welfare and employment, but the collapse of PPI following a Serious Frauds Office investigation in 1990 dealt a blow to both Nadir and the 'TRNC' economy. Nadir remains influential in Turkish Cypriot affairs due to his ownership of Kibris newspaper, a daily with a wider circulation than all its rivals put together.

On the political front, the ruling National Unity Party (UBP) announced that it would be holding its party congress in October. Prime Minister Irsen Küçük aimed to consolidate his grip on power through a strong showing for party leadership. Ahmet Kaşif, associated with President Derviş Eroğlu announced his candidacy as well. Eroğlu and Küçük's rivalry within UBP served to polarize party delegates although Küçük's position as prime minister is deemed an advantage for overall control of the party.

The government faced a setback when the Constitutional Court granted an injunction that restored the Mayor of Lefkosa (Nicosia) to office. The previous month the council of ministers had decreed that the mayor and city council take a mandated leave of absence paving the way for a care taker administrator to deal with the municipality's insolvency and the need for restructuring.

Dissatisfaction with the political and economic performance of the government led to the establishment of civil society pressure groups. Among these the 'toparlanıyoruz' (roughly 'pulling ourselves together') group led by Eroğlu's former Special Adviser to the Cyprus settlement talks, Kudret Özersay, was most prominent.

6. FES Events

IKME/BILBAN/FES

Movie Campaign: Akamas

7. September 2012, 8:30 pm

Cyprus, Pyrgos, 'Ifigenia'

University of Nicosia / Nanyang Technological University / Spienza University / US Embassy / AHDR / FES

**And this Island: Who knows it?
Cypriot Identities across Millennia**

7. – 9. September 2012

Cyprus, Nicosia

IKME/BILBAN/FES

Movie Campaign: Akamas

18. September 2012, 8 pm

Cyprus, Deryneia, Café 'To Posto'

EASA/MHS/FES

**Peace Building in War-torn Cities
Right to the City, Right to the State**

21. – 22. September 2012

Cyprus, Nicosia

UNDP/USAID/FES

The Power of One.

**Citizens-led Innovation and Social Change
Practices during Periods of Transition**

9. – 12. October 2012

Cyprus, Nicosia

Post RI/DZF/FES

**Reflections of Past Trauma through Textbooks:
Experience of the Cyprus History Textbooks
and Peace Education**

26. – 27. October 2012

Cyprus, Nicosia

PRIO/FES

Good Governance in Cyprus and the Region

26. – 27. October 2012

Cyprus, Nicosia

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