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## 1. Cyprus Problem

The Cyprus Problem is on a short list of world problems that US secretary of State, John Kerry, hopes to solve during his term in office according to US ambassador, John Koenig.

The ambassador echoed US President Barack Obama's statement during a meeting on August 8 with Greek Prime Minister Antonis Samaras in Washington DC, that a great opportunity exists to achieve progress and resolve the Cyprus problem. The US President also pledged to work closely with Greece on other regional issues. Samaras for his part spoke about a window of opportunity opened by the proposals tabled by the Cypriot President Nicos Anastasiades referring to the return of the fenced off town of Varosha to its inhabitants in return for allowing EU supervised trade at the Famagusta port in the north.

Turkish Cypriot interim "Prime Minister" Sibel Siber, was quoted in Turkish Cypriot media urging Turkish Cypriots to seek property exchanges with Greek Cypriots via the Immovable Property Commission (IPC) after an agreement is reached with the pre-1974 owner. Since the 2010 Demopoulos case, the IPC has been deemed an effective domestic remedy by the European Court of Human Rights (ECHR) for Greek Cypriot claims, offering compensation, property exchange or restitution of their properties. However, Greek Cypriot lawyer Eleni Meleagrou who recently took her own IPC case to the ECHR, described Siber's plan as logisti-

cally and legally problematic. Particularly, in the case of potential property exchange a Turkish Cypriot would need to find a Greek Cypriot willing to swap property and the IPC would need to find a Turkish Cypriot owing land of comparable value. Additionally an application may take years to be examined by the 'TRNC's' registry department as out of the 5.000 applications lodged so far only 412 have been concluded. Furthermore, the IPC may require proof that the person registered as the owner is indeed the applicant or that the applicant is an heir of the original owner providing birth and death certificates. But, according to Meleagrou, even if a Turkish Cypriot finds a Greek Cypriot who agrees to exchange his property in the north with a Turkish Cypriot property in the government controlled areas and the application passes through the IPC, the government would not register the property on the Greek Cypriot's name because it comes under the interior ministry's guardian of the Turkish Cypriot properties.

August 14 marked the 39th anniversary since the completion of the second phase of the Turkish Invasion after a ceasefire was declared on July 22, and the conclusion of unproductive conferences held in Geneva between Britain, Greece, Turkey, Greek and Turkish Cypriot representatives in August 13, 1974. Turkish troops first landed in Cyprus on July 20, 1974, five days after Archbishop Makarios III was toppled by a military coup engineered by the Greek military Junta of Dimitrios Ioannides.

## 2. Hydrocarbons

On August 8, the Energy Minister of Cyprus Giorgos Lakkotrypis and his Greek and Israeli counterparts, Yiannis Maniatis and Silvan Shalom, signed in Nicosia the first ever Memorandum of Understanding (MoU) between Cyprus, Greece and Israel on cooperation in the fields of energy and water. The MoU provides a framework of cooperation which will determine the number of activities that the countries agreed to jointly pursue, such as the security of energy supply, sustainable development and cooperation among the countries of the region.

The three ministers welcomed the privately initiated 'EuroAsia Interconnector Project', which is one of the proposed areas of collaboration between the three countries after having received the preliminary approval of the European Commission as 'projects of common interest'. The first of the three projects aims at creating an electricity interconnection between Cyprus, Greece and Israel via an underwater high tension electricity cable. The second project involves an underwater gas pipeline from the Eastern Mediterranean to Europe via Greece. The third project involves the 'Med Storage Project' where Cyprus would provide tanks at Vasilikos for the storage of liquefied natural gas (LNG), securing the strategic interests of Cyprus, Israel and other European Countries. Being the first step of an unprecedented collaboration between the three countries, at this stage the MoU is more of a statement of intent rather than a roadmap of specific actions

as the projects referred to are yet to be proven viable.

Enhanced relations between Cyprus and Israel was also a major theme of President Anastasiades' speech at the opening of a fifth desalination plant, the construction of which was undertaken by local and Israeli companies.

Lakkotrypis also revealed that negotiations between Cyprus and the two energy companies Noble and Delek over the construction of a LNG terminal entered a substantive phase. The minister also noted that the key stage of the appraisal drilling is now completed, reaching a depth of 5.600 meters below sea level. The evaluation process of the obtained geological data has begun and will last a few weeks.

Reports suggest that Noble's Israeli partner in block 12, Delek Drilling, is considering exporting natural gas from its offshore Israeli interests to Turkey, Egypt, Jordan and the Palestinian Authority via one or more pipelines. Should any project take off, particularly a pipeline to Turkey, this would seriously decrease the chances of Israel making use of Cyprus's planned LNG terminal to export gas either to Europe or Asia, thereby diminishing hopes of establishing the country as a regional energy hub.

### 3. Greek Cypriots

#### **Economic Developments**

The first Troika<sup>1</sup> assessment, which was concluded on July 31, judged that Cyprus is on track to meeting its obligations but with a great deal of uncertainty prevailing with regards to the future.

Under an agreement reached with the Troika the government would spend around €1.5 billion of the €10 billion international bailout to buy shares in the co-operative movement so that the latter could meet its recapitalization needs and avoid a depositor's bail-in as experienced with the commercial banks. The co-ops will receive the money after the disbursement of the second tranche of the Cypriot bailout programme, pending approval of the Eurogroup on September 13. The move will make the state the exclusive owner of the co-operatives, acquiring 99% of its shares. The island's 93 cooperative companies will be merged to form 18 entities in line with Cyprus' bailout terms while supervision will move to the Central Bank. A generous early retirement scheme will also be offered to 3.000 workers.

Bank of Cyprus (BoC) which officially exited administration on July 31, after completing its recapitalization using depositors' cash, announced that its new board will be elected on

September 10. As part of its restructuring plan, a quarter of its staff, namely 1.370 employees, have applied for a voluntarily retirement, cutting its annual expenses by about 37%. Around 170 people have also opted for early retirement at the Hellenic Bank saving the lender some 14% per year. Hellenic managed to cut staff by 11% and payroll costs by 14% in an attempt to cut operating services. Meanwhile, the Church of Cyprus, Hellenic's main shareholder is prepared to sell off prime estates to raise the necessary €300 million to maintain its majority stake in the bank.

The finance ministry announced on August 2 that it was easing restrictions regarding the opening of new bank accounts. The new provisions are included in the 19th decree on capital controls. The ministry also published on August 8 a roadmap agreed with the troika for the gradual removal of capital controls imposed since last March. Lifting controls hinges on specific milestones related to the recapitalization and restructuring of the banking sector.

Consumers and companies continued to withdraw deposits from Banks in Cyprus in July. Private sector deposits fell by 2.4 % to €36.7 billion after a 7.6% fall in June.

According to the statistical service, unemployment rose to 17.3% in July recording the highest increase in Europe by 31% on a year to year basis. According to Eurostat, the number of unemployed is now at 78.000.

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<sup>1</sup> The Troika is comprised by: The European Commission, the European Central Bank and the International Monetary Fund (IMF).

According to the Wall Street Journal latest figures revealed a massive drop in Russian direct investment in Cyprus with just €2 billion invested on the island from January to March 2013, compared to €15.8 billion in the last quarter of 2012. Meanwhile, Russia's deputy finance minister, Sergei Storchak, announced that the Russian cabinet decided to restructure the €2.5 billion loan Russia gave to Cyprus in 2011. The repayment was extended in the form of eight equal payments every six months starting in 2016. The interest rate was also cut from 4.5% to 2.5%.

Under a law passed at the House plenum on August 29 the Central Bank no longer wields absolute power over banks that are being wound down. The law provides for the resolution authority on banks to comprise a trio consisting of the finance ministry, the Central Bank and the Securities and Exchange Commission. Under the new power sharing regime, decisions on banks undergoing resolution will be taken by a simple majority. This measure is clearly aiming at sidelining the current Central Bank Governor. Panikos Demetriades who was appointed by the previous administration of AKEL, is in no good terms with the current administration. DISY had long sought to amend the Resolution on Debt and other Institutions Act of 2013, passed in March under the threat of default, making the Central Bank the sole resolution authority. Demetriades had threatened in the past not to participate in the new resolution authority if the law passed.

### **Domestic Developments**

Former president Demetris Christofias due to speak on August 22 before a panel investigating the circumstances of the island's economic collapse walked out of the hearing because he was not allowed to read a 25 page statement.

Most of the events the committee of inquiry is investigating took place during Christofias' term between March 2008 and February 2013. Christofias complained to the committee for wedging him in before former Central Bank governor Athanasios Orphanides, who was the regulator during most of his administration but had been a severe critique of his handling of the crises during his term in office. Christofias also refused to be treated as any other witness and threatened to leave the proceedings when the committee's head Giorgos Pikkis told him he would have the chance to read his statement at the end as did everybody else who attended the hearings. The former president also requested by the committee to give him their questions in writing so he could respond the same way.

While testifying to the committee former Central Bank Governor Athanasios Orphanides, went on the warpath blaming AKEL and the previous government's repeated failure to take preventive action, putting party before national interests and by choosing to focus on the February 2013 presidential elections instead of taking the necessary structural measures. President Anastasiades also highlighted his discontent

with the previous administration and its inaction during his testimony.

The legitimacy of the committee was disputed by AKEL - after Christofias' walk-out - on the grounds of being illegal since a relevant law noted that the committee could not be appointed by the cabinet if the cabinet itself and the president were involved in the investigation. The panel is now awaiting a ruling from the attorney general's office on how to handle Christofias' walk-out.

On another front, the Vasilikos power station is back to full operation two years after the July 11, 2011 explosion at the nearby Mari Naval Base which almost destroyed the plant and caused rolling cuts. The explosion had a significant impact on the island's economic activity and contributed to the requirement for an international bailout.

### **Foreign Policy**

In light of recent developments in Syria, the US is considering a surgical military air strike against governmental forces and targets in response to the suspected usage of chemical weapons by the Assad regime.

As a surgical strike on Syrian military targets by American and French forces looked increasingly likely at the end of August. Given Cyprus's close proximity to Syria and the original pledge of the British government to participate in the attack there was some concern that the presence of

British bases on the island would draw the island in the confrontation. With two sovereign bases, major military installations and other sophisticated radar systems there was a possibility that UK forces or installations in Cyprus might be the target of retaliatory strikes. This danger was considerably reduced, when the British parliament voted against a participation of the UK in the military operation.

The deteriorating situation led Foreign Minister Ioannis Kasoulides to hold separate meetings with British, American and French diplomats. Kasoulides stressed before the decision of the British parliament, that the British Bases in Cyprus will not play a major role in any possible military strike against the Assad regime. He responded to reports in the Guardian that warplanes and military transporters had begun arriving at the Akrotiri airbase in a sign of increasing preparations for such a strike. At the same time Kasoulides reiterated the government's position that 'the use of weapons of mass destruction such as chemical weapons cannot remain without consequences' confirming the clear shift in Cypriot foreign policy towards Western security interests.

Kasoulides also discussed with cabinet ministers preparations for the possible evacuation of foreign nationals from Syria by implementing the national emergency plan 'Estia' which was put together during the Israeli-Lebanon war in 2006 and includes the usage of Cyprus' airports and ports. The island is ready to take in 10.000 foreign nationals per day for a limited time as

long as a similar number leaves the island every 48 hours

The Foreign ministry urged all Cypriot citizens residing in or visiting Syria to leave the country immediately.

#### 4. Turkish Cypriots

The month of August was dominated by efforts to set up a coalition government following the parliamentary elections of late July. Parliamentarians were sworn in on 12 August.

Whereas the Republic Turkish Party (CTP-BG) emerged as the largest party in parliament it lacked a majority and needed to build a coalition with one of the center right parties, either the Democrat Party (DP-UG) of the National Unity Party (UBP). Other options included a grand coalition that would also include the leftish Communal Democracy Party (TDP) that only held three seats overall.

The most obvious minimum winning coalition was that between CTP-BG and DP-UG. Both parties worked together to secure early elections and collaborated in the interim government in the run up to the elections. CTP-BG's 21 seats plus DP-UG's 12 would secure a government majority in the 50 seat parliament. The UBP was a less likely partner, as the election was something of a manifesto on UBP's leadership and government over the previous 4 years.

While expectations were high, negotiations between CTP-BG and DP-UG ran into difficulties, reportedly stemming from disagreements on the distribution of Ministries. Initially it appeared that CTP-BG's insistence on holding both finance and internal affairs portfolios created a rift that led to a breakdown in talks. This prompted CTP-BG to re-explore the alternative coalition option with UBP. However, with time running out whereby the fifteen days allotted to CTP-BG to form a government, terms with DP-UG were agreed to.

Media reported that just as CTP-BG's party parliament was in the process of voting on the coalition protocol agreement with DP-UG, CTP-BG's party leader, Ozkan Yorgancioglu, received a phone call from Turkish Minister responsible for Cyprus Affairs, Besir Atalay. It was reported that Atalay conveyed the views of Turkish Prime Minister Erdogan who preferred the alternative coalition possibility. DP-UG's leader, Serdar Denktas, son of the late president Rauf Denktas, had been at odds with the Justice and Democracy Party (AKP) government in Ankara. The intervention was deemed controversial. Despite this, the party parliament approved the terms of the coalition and the government was established on 29 August.

Accordingly, CTP-BG assumed the prime ministry, foreign affairs, ministry of interior, finance, agriculture and energy, as well as labor and social security and health portfolios. DP-UG held deputy prime minister, tourism and economics, public works and transportation,

education youth and sports, as well as environment and natural resources portfolios.

What remained to be revealed was the identity of individual ministers. Somewhat surprisingly, given that she had led the CTP-BG in overall votes as a candidate, the interim government prime minister, Sibel Siber, was not made a member of the cabinet. She was later offered the prestigious, if symbolic, speaker role in parliament. Ozkan Yorgancioglu, as party leader, also assumed the prime minister position. Given the prominence of the Cyprus peace talks, and the likelihood that fully fledged negotiations would commence in the Fall, the appointment of Ozdil Nami as Foreign Minister, also of CTP-BG and Mehmet Ali Talat's former special representative in the negotiations between 2008 and 2010, was not a surprise. It was assumed that Nami would serve to follow the negotiations although formally president Dervis Eroglu was authorized to represent the Turkish Cypriot community in the negotiations. Serdar Denktas, leader of DP-UG assumed the deputy prime minister as well as economics, tourism, culture and sports portfolios.

The Interior Ministry went to Teberrüken Uluçay (CTP / BG), the Finance Ministry assigned to Zeren Mungan (CTP / BG). The Public Works and Transport Minister was to be Ahmet Kasif (DP / UG). Labour and Social Security went to Aziz Gürpınar (CTP / BG). The Ministry of Food, Agriculture and Energy was assigned to Onder Sennaroğlu (CTP / BG), Environment and Natural Resources Ministry went

to Hamid Bakirci (DP / UG), the National Education Ministry to Mustafa Arabacıoğlu (DP / UG), and the Health Ministry to Ahmet Gulle (CTP / BG).

The cabinet was remarkable in that it was constituted exclusively of men, which led to media commentary critical of the exclusion of women, especially in the wake of the popular interim government headed by a woman, Sibel Siber of CTP-BG.

On the Cyprus problem front, president Eroglu aimed to steer the negotiations in the direction of recommencing full-fledged talks by October, a view shared by the United Nations Good Offices team. Against this, Eroglu attempted to fend off attempts by the Greek Cypriot side to raise the issue of Varosha/Maras as a confidence building measure (CBM). Whereas Varosha/Maras is a ghost town and has been discussed as part of a CBM package over decades of talks, the Turkish side insists that it is in fact a territorial matter and part of a comprehensive settlement deal.

## 5. FES Cyprus Events



**Monday, 16. September 2013, 19:30-22:00**  
POLITEIA CYPRUS / FES

Conference

**Celebrating Democracy Day: Perspectives from  
Cyprus and the Arab Spring**

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



**Saturday, 28. September 2013,**  
GAT CYPRUS / PRIO CYPRUS / FES

Conference  
**Gender & Law**

Home for Cooperation (in the Buffer Zone)  
Open to the Public

**Saturday 5. October 2013, 14.30-19.30**  
FES

Conference and Round Table Discussion

**“PICGS” in Trouble. The Impact of the Crises  
and Austerity Policies on Portugal, Italy, Cyprus,  
Greece and Spain**

UNESCO Amphitheatre, University of Nicosia  
Open to the public



**Wednesday 23. October 2013, Famagusta**  
KTOS Famagusta Headquarter  
**and**

**Friday 25. October 2013, Morphou**  
Baris Nursery School

POST RI / KTOS / FES

conference and workshop

**Peace Education and Gender workshop for  
Women Educators**

Open to the public



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