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## 1. EU Presidency

In September a number of important meetings, formal and informal, were held under the Cypriot Presidency. Key events were the Euro area's Finance Ministers meeting (Eurogroup) and the Informal Economic and Financial Affairs Council (ECOFIN) on the 14th and 15<sup>th</sup> of September.

The two meetings took place at the backdrop of the European Central Bank's (ECB) decision to launch the Outright Monetary Transactions programme - allowing the unlimited purchase of sovereign bonds in a bid to ease the pressure on states facing high borrowing costs - and the German Constitutional Court's decision to clear the implementation of the European Stability Mechanism.

The two meetings were attended by the International Monetary Fund's Managing Director, Christine Lagarde, and Mario Draghi, the Chairman of the European Central Bank (ECB). The Eurogroup meeting under Jean Claude Juncker focused on the economic situation of the euro area member states that had applied for or have been receiving EU financial support, namely Greece, Ireland, Portugal, Spain and more recently Cyprus.

Developments in the banking sector dominated the informal ECOFIN meeting convened under the Chairman of the Council, Cypriot Minister of Finance Vassos Shiarly. The reform of the EU's financial sector topped the bill of the discus-

sions, while special focus was given to the creation of a Banking Union and to the establishment of a Single Supervisory Mechanism. The ministers also exchanged views on the reduction of the International Monetary Fund (IMF) Executive Board representation by advanced EU countries. The launch of an effective European supervisory mechanism was set as a precondition for the implementation of the June 29<sup>th</sup> Euro area Summit decision to facilitate a direct recapitalisation of troubled banks by the European Stability Mechanism (ESM).

Another important meeting was held in Brussels during which the Presidents of the European Commission, Jose Manuel Barroso, the European Parliament, Martin Schulz, the European Council, Herman van Rompuy, and President Demetris Christofias held talks regarding the 2014-2020 Multiannual Financial Framework (MFF). In a joint statement issued after the meeting the four presidents underlined the need for the future seven-year European budget to translate the EU's overall objectives into concrete investment for growth and jobs. The MFF is expected to make a significant contribution to the resolution of the economic crisis.

The revised Negotiating Box, which outlines the main elements and options for the MFF negotiations, was the main focus of discussions during the General Affairs Council meeting that took place in Brussels on the 24th. EU Ministers for European Affairs expressed their willingness to use the revised Negotiating Box as a basis for

reaching a compromise by the end of the year in the negotiations for the MFF, which is considered a main priority of the Cyprus Presidency and EU institutions.

The EU Foreign Affairs Ministers reaffirmed their support to the UN and Arab League Joint Special Representative for Syria, Mr. Lakhdar Brahimi, at the Informal Meeting of EU ministers of foreign affairs ('Gymnich') on the 8<sup>th</sup> of September in Pafos. The meeting was chaired by the High Representative of the Union for Foreign Affairs and Security Policy (HR), Baroness Catherine Ashton, and was co-hosted by the Cypriot Minister of Foreign Affairs, Dr. Erato Kozakou-Marcoullis.

## 2. Cyprus Problem

Since the beginning of the Cypriot EU presidency on 1 July, high-level talks between both sides have been suspended with the approval of the UN Security Council. Instead of the Cyprus Problem the economy's ailing condition and negotiations with the Troika over the bailout terms have become the main political issue. But the division of the island still dominates political debates that take place between the government and presidential candidates in the light of the Presidential elections next year.

Opposition DISY leader and presidential candidate Nicos Anastasiades attacked the government by stating earlier this month that 'Turkish intransigence' cannot be used by any govern-

ment or any political power as an excuse for the deadlock in the ongoing negotiations. "It is a given that the lack of a solution is definitely due to Turkish intransigence, but what have we done to bend it?" Anastasiades stated. The DISY leader also stressed that during the 38 years of Cypriot owned negotiations only a series of dead ends has been reached.

Meanwhile, a Turkish newspaper article, which quoted an MEP saying that Anastasiades supported a loose federation and the calling of a broad meeting with the participation of Turkey, Greece, the EU and the UN to discuss the terms of a Cyprus settlement, reinforced the ongoing spat between the government and the opposition. The controversial statement occurred just a few days after DISY and DIKO had clinched an agreement regarding the line they would follow on the Cyprus Problem, which includes the withdrawal of proposals made by the current government and rejection of any plan similar to the Annan Plan presented in 2004. The political collaboration between the two parties was eventually finalized on the 28<sup>th</sup> when the DIKO Central Committee overwhelmingly voted in favour of backing Anastasiades for President. DIKO leader Marios Garoyian described the outcome as 'historical'.

As a response to the accusations about the deadlock in the Cyprus question by the DISY leader, President Chistofias reiterated at a meeting with a delegation of the Court of Justice of the European Union that the current deadlock in the Cyprus Problem is due to the

insistence of Turkey and the Turkish Cypriot leadership on a settlement providing for two separate states in Cyprus.

UN Secretary General Special Advisor Alexander Downer stated on the possibility of calling an international conference on the Cyprus Problem that the circumstances are not right for a multilateral conference at this stage. Downer pointed out that until there is some consensus on calling for a multilateral conference, the UN is not ready to coerce anyone to participate in such a conference. The statement followed separate meetings the Special Advisor held on the 20<sup>th</sup> with Turkish Cypriot leader, Dervis Eroglu, and his Greek Cypriot counterpart, Demetris Christofias .

The Special General Advisor also stressed that the UN is ready to facilitate a new meeting between the two leaders if they are willing to attend. He added that the UN is currently focusing on the technical committees and how to make them more productive and successful in a constructive way. Downer asserted his willingness to work with the new president, whoever that may be. He implied that the presidential elections do not promote steps towards a settlement. According to President Christofias, speaking at the UN General Assembly in New York, the UN will prepare a document on the convergences and divergences of the negotiation talks. The document will then be presented to both sides for reference. By doing so the UN clearly signals its intention to build on achievements of the previous round of substantive

talks, irrespective of Anastasiades' pledges to review positions of Christofias.

In an attempt to revive the negotiations, Turkish Cypriot leader Dervis Eroglu revealed that he is preparing to present a new plan to the UN Secretary-General Ban Ki-moon for gas explorations surrounding the island. Eroglu said he proposed using whatever is earned from any gas or oil to finance a reunification settlement.

### 3. Hydrocarbons

The possibility of transferring natural gas from Israeli gas fields to Cyprus as an interim solution is currently presented as an alternative solution until the island is in a position to exploit its own reserves in its Exclusive Economic Zone (EEZ).

Following the visit of a Cypriot delegation to Tel Aviv in early September, the head of the commerce ministry's energy service, Solon Kassinis, stated that Israel was willing to supply Cyprus with a small quantity of its natural gas for electricity production before 2015, either in a compressed (CMP) or more likely in a liquefied form (LNG). LNG is more cost efficient to transport over long distances, but requires a re-gasification unit. Cyprus is not expected to have a liquefaction plant of its own before 2017 or 2018.

Assuming a deal with the Israelis is finalized, the gas would be bought by the Electricity Authority

of Cyprus (EAC) and transported to Cyprus on tankers. Cyprus says it needs relatively small quantities of imported gas, ranging between 0.5-0.7 billion cubic metres - just enough to generate some 450 MW of power at the Vassilikos power plant, which has turbines that can process natural gas.

It seems however, that the ongoing talks with Israel for the purchase of limited quantities from the neighbouring nation are not progressing as fast as the Cypriot side would have expected. Thus, the Electricity Authority of Cyprus (EAC) and the Natural Gas Public Company (DEFA) jointly finalised on the 28<sup>th</sup> a document inviting expressions of interest for short-term supplies of natural gas not exceeding 1.2 billion cubic metres (bcm) per year, as a stop-gap solution until such time as the island can bring ashore its own gas. According to DEFA, the main criteria for evaluating the tenders are time and cost. The tenders closing date is settled at October 29. The negotiations with the successful party are expected to be completed in 13 weeks, whereas the natural gas supply is expected to commence no later than 2015.

Earlier in the month Commerce minister Neoclis Sylikiotis met with Israeli energy company Delek to discuss its request to acquire a 30 per cent stake in US company Noble Energy's hydrocarbon exploration rights over Block 12. Delek is the main company that in collaboration with Nobel has the right to exploit the large blocks of the EEZ of Israel where significant deposits of

natural gas were discovered. Noble Energy and Delek have also been promoting a venture to set up liquefaction plant here, for exporting the gas from Israel's 'Leviathan' prospect and from Block 12 of Cyprus' EEZ. The approval of Delek's participation in Block 12 would solidify the cooperation between Cyprus and Israel for the exploitation of natural gas in the Eastern Mediterranean. Sylikiotis also stressed that in 2013 negotiations regarding the second licensing round will be completed. Furthermore, a meeting is planned between Greece, Cyprus and Israel with the target to establish joint working groups from the three countries to examine issues of common energy infrastructure.

Noble Energy is expected to move ahead with the procedures to start the second drilling early in the following year while by the second half of 2013 the company will be ready to proceed with the creation of the infrastructure related to gas extraction as well as the pipelines and the construction of the terminal for liquefying the natural gas in collaboration with the state.

Recently Archbishop Chrysotomos announced his intension to mortgage church assets in order to participate at all levels of the gas exploitation, including drilling and liquefaction. To this end, the Church is in the process of securing shares in one of the companies currently bidding for Cyprus' EEZ blocks. A second licensing round for companies interested in concessions for exploratory drillings in Cyprus EEZ was

concluded last May, resulting in bids by fifteen companies and joint ventures. Bids are being currently evaluated by the government.

As a response to the first licensing of companies to carry out offshore exploration by the Republic of Cyprus, Turkey started onshore exploratory drillings for oil and gas in Singrasi, a village in Famagusta. The drilling has currently reached a depth of 4 km but has not yielded any results yet. Turkey's Energy Minister Taner Yildiz said a second complementary drilling would be carried out in the north, while Turkish Petroleum Corporation (TPAO) is expected in the next 6 months to start drilling offshore for gas in the Eastern Mediterranean. Turkey demands that Cyprus cease hydrocarbon explorations in light of pending reunification talks and stated it would take measures to protect Turkish and Turkish Cypriot interests.

## 4. Greek Cypriot

### Economic Developments

Just hours after President Christofias met briefly with International Monetary Fund (IMF) Managing Director, Christine Lagarde, and while EU finance ministers began converging on the island for crucial debt crisis talks attending the Eurogroup and the informal Economic and Financial Affairs Council (ECOFIN), fresh details emerged of a 20-page draft of the Troika's proposed austerity measures for Cyprus

The austerity measures were leaked to the media, amid mounting criticism that the administration is delaying the bailout request process, awaiting a possible Russian loan and out of fear for public backlash.

The draft recommendations from the Troika leaked on September 12 included:

- Proposals for a pension reform that would bring civil servants' retirement plans in line with those of the private sector, and cuts to those pensions that are above the national average.
- Referring to the Banks, proposals that all financial institutions on the island should come under a single supervisory body and be subject to the same regulations. Currently, cooperatives fall under the 'umbrella' of the Commerce Ministry, not the Central Bank.
- Calls for a study into the viability of the Social Security fund SSF, raising retirement age and linking this to life expectancy, and for civil servants to pay into the SSF.
- Mandatory balancing of budgets, the establishment of an independent body to administer the public debt, and the complete privatisation of some semi governmental organisations such as Cyprus Airways and partial privatisation of others like the Cyprus Telecommunications Authority.
- Scrapping wage indexation in the private sector as well as in the public sector, altering the method used to calculate the minimum

wage, and opening up so-called 'closed' professions such as law, engineering, architecture and real estate.

- 15 per cent cut in the state payroll by 2013.
- Abandoning 13th salaries in the public sector.
- 13th pensions cuts of between € 1,000 and € 1,500 by 50 per cent, and those over € 1,500 by 75 per cent.
- Extending the wage freeze until the end of 2015.
- Increased taxation of tobacco, cigarettes, alcohol and fuel.
- Reducing allowances such as the Easter and Christmas bonus.

Meanwhile, the statements of Eurogroup President Jean-Claude Juncker played a decisive role in speeding up the process, with the Finance Minister almost immediately contacting the Troika team in Brussels to set a date for its return. At the same time the government is discussing counterproposals. "We invite the Cyprus authorities to clarify their intentions with a view to resuming and concluding the negotiations regarding the possible financial assistance programme" Juncker stated.

The government is preparing to discuss its counterproposals with the political parties and social partners. The suggested measures would affect the island's public sector in an unprecedented way. Until now the government has avoided to curtail the public sector, especially

with national elections looming next February. The government suggests:

- An alternative way to raise an equal amount of cash to avoid cutting the 13th salary at least for low earners.
- A wage indexation reform instead of scrapping it.
- Opposes privatising profitable semi-state organisations like the telecommunications company CYTA.
- Seeks the three year adjustment period to be extended in a bid to mitigate the effects of the measures.
- Proposes pay cuts between 1.0 per cent and 3.0 per cent and staggered cuts in the 13th salary of high earners.
- Suggests staggered cuts to pensions over € 1,000 and increasing working hours in the wider public sector.

Nearly two weeks after Eurogroup President Jean-Claude Juncker told Cyprus that it must speed up negotiations with the troika for a bailout deal, the European Commission's spokesman Olivier Bailly stated on the 26th that it is still waiting to receive Cyprus' counter proposals to the austerity package proposed by the international lenders. In addition Russian Finance Minister Anton Siluanov, who met with Juncker during the week, told Reuters on the 28<sup>th</sup> that Russia is considering a request for a €5.0 billion loan to Cyprus as part of a coordinated rescue with the EU. Siluanov also stated that Cyprus was seeking a 15 billion from

the EU. The Russian Minister's comments appeared to represent an attempt to prevent Cyprus from playing off Moscow against Brussels in order to secure more favourable borrowing terms. Cyprus is known as an off-shore haven for Russian business. There has been no official comment by the government yet regarding the Siluanovs statements.

The Cabinet ministers' meeting concluded the 2013 draft budget, which includes cutting public service jobs by 1,000. Officials indicated that the final figures could change, pending discussions with the Troika whose overriding objective is to slash the public deficit to 4 per cent of GDP by the end of this year, and to 2.5 per cent by 2013. Although the government has been accused of delaying its response to the Troika, negotiations are expected to kick off in October and to conclude by the end of the month. Some EU officials have estimated Cyprus's needs at €10 billion, more than 50 per cent of the country's €17 billion GDP.

### **Domestic Development**

Stavros Malas, currently serving as Health Minister under the AKEL-led government, announced on 8th September his candidacy for the presidential elections in February 2013. The ruling left-wing party AKEL backs Malas, even though he runs as an independent candidate. He was voted by 92.3% of the delegates during an extraordinary party congress on 7<sup>th</sup> September. Before holding the post as Health Minister

Malas served from 2008 until 2009 as Special Advisor to the European Commissioner of Health. According to an opinion poll released on 23rd September by Noverna Malas' support stood at 17.78% in comparison to Nicos Anastasiades whose support rate is at 35.02%, whereas Giorgos Lilikas stood at 15.81%. Anastasiades is the common candidate of DISY and DIKO, while Lilikas is backed by EDEK.

Malas follows a policy similar to that of AKEL with regards to the financial crisis. He sees the solution in encouraging development by funding research, innovation and education rather than implementing austerity measures. Furthermore, he wants to continue Christofias' policy concerning the Cyprus issue in striving for a bi-zonal and bi-communal federation.

Nicos Anastasides from DISY, on the other hand, supported in 2004 the Annan Plan which complicates a political alliance with DIKO which is considered a hard line party and was and still is staunchly opposed to any solution along the lines of the Annan Plan

At the meeting of the Central Committee of DIKO on 27<sup>th</sup> September, Anastasiades was endorsed as presidential candidate by 80.6% of the delegates, after having made a statement that he would not support any UN peace initiative based on the 2004 Annan Plan and that he will repudiate concessions made to Turkish Cypriots by President Christofias namely the rotating Presidency and weighted voting proposals. DIKO's support for Anastasiades is

criticized by DIKO's Vice President Nicholas Papadopoulos who favours Giorgios Lillikas. Anastasiades is accused by AKEL, governmental officials and lately Papadopoulos of having undergone 'political mutation' in order to get the necessary majority to see him in office next year.

The funding of political parties in Cyprus has recently been scrutinized. In the centre of the debate is PEO, an AKEL-controlled trade union, whose loans worth almost € 3 million were allegedly written off by Bank of Cyprus (BoC) in March. During this period BoC attempted to raise funds for its recapitalisation. This particular incident raised renewed demands for making party funding more transparent, which, however, has so far been rejected by all political parties in Cyprus.

The court case following the explosion at the Mari naval base in July 2011 has proceeded to the presenting of evidence. The defendants, who pledged not guilty, are accused of causing death by want of precaution and homicide by gross negligence in relation to 13 deaths that occurred as a result of the explosion. During the court sessions a multitude of evidence was presented, incriminating former foreign minister Marcos Kyprianou, former defence minister Costas Papacostas, former National Guard deputy chief Savvas Argyrou, former fire service chief Andreas Nicolaou, deputy fire chief Charalambos Charalambous and former disaster response squad (EMAK) commander Andreas Loizides. President Christofias rejected any

political responsibility though an investigation authorised by him but part of the blame on his shoulder.

During the House Finance Committee meeting on 24<sup>th</sup> September it was disclosed that 50% of the working population does not have a tax file and therefore evades adequate taxation despite the increase of powers granted to the Inland Revenue Department (IRD). The reason for this lies in the fact that half of the Cypriot population do not submit tax returns claiming that their annual income is below the maximum tax free income of 19.000 Euro. There is clearly widespread tax evasion on the island. It is well known that a large number of self-employed individuals do not issue invoices. This applies to the construction business but is also widespread practice among other higher-earning self-employed professionals such as doctors, lawyers and accountants. It is also well known that state school teachers have untaxed income by giving afternoon lessons.

During a meeting of a Justice and Home Affairs Committee Chairs Conference on 24<sup>th</sup> of September Minister of Interior, Eleni Mavrou, pointed out that there has so far not been made much progress in the creation of a European common asylum system. Cecilia Wikstrom (MEP and member of the Committee on Civil Liberties) stressed that those 10 countries of the EU that receive 90% of asylum seekers experience a serious lack of solidarity from the remaining 17 European countries. Cyprus faces particular challenges since the Green Line, sepa-

rating the North from the Republic of Cyprus in the south, is porous and can be easily crossed.

Paphos was nominated as European Capital of Culture in 2017 alongside the Danish city of Aarhus. The final decision will be taken in May 2013 by the EU's council of ministers.

## 5. Turkish Cypriots

### **Economic Developments**

September saw the completion of a tender to lease Ercan (Tymbou) airport. A Turkish company, Tasyapi Construction, won the bidding, securing a 25 year lease. The deal would entail revenue sharing (47.8%) as well as an investment of around 350 million euro, including the construction of a new terminal and is the largest tender to date in northern Cyprus. The government pointed to the inflow of capital while opposition parties criticized the tender process, alleging that criteria had been fudged to allow for bids by companies lacking experience. Furthermore, the evaluation process, completed within hours of opening of bids, was deemed superficial.

Preparations for an economic summit between the 'TRNC' and Turkey continued. Minister for Economics, Sunat Atun, announced that Prime Minister Irsen Kucuk would be tabling the "TRNC's" "2013-2015 Economic Program" in Ankara during a summit meeting in early October.

Efforts to cultivate economic ties with foreign states, particularly Islamic countries were also promoted by the government and publicized through media and visits of various delegations.

Meanwhile, President Eroglu met with UN Secretary General Ban Ki Moon in New York on the sidelines of the UN General Assembly. Eroglu outlined a new hydrocarbons exploration plan, threatening to commence offshore drilling should the Republic of Cyprus conclude tenders in the current round of bids in its exclusive economic zone (EEZ). This may imply potential conflict since 'TRNC's' continental shelf delimitation agreement with Turkey is not recognized by the Republic of Cyprus and entails overlaps with the Republic's EEZs.

Eroglu's proposal included an agreement on revenue sharing between the communities in Cyprus. Eroglu asked Ban to administer an escrow fund for collecting revenues to be used in financing a future federal settlement.

In an attempt to combat water shortage in the North Turkey is planning a 107 kilometer long underwater pipeline between Turkey's South coast and a dam to be erected near Gecitkoy. The Pipeline can carry up to 75 million cubic meters of fresh water per year to northern Cyprus. The project is worth \$ 700 million and is expected to be operational by March 2014.

### **Domestic Developments**

A scandal in the Public Service Commission (responsible for public sector employee appointments) entailing a forged document underscored the problem of endemic corruption at the highest levels of administration. Moreover, the scandal had the potential of affecting President Dervish Eroglu's political career.

On 21 September, the left-wing daily, Afrika newspaper, published what it contended was a document including the forged signature of Prime Minister Irsen Kucuk. Kucuk forwarded the matter to the Attorney General. This prompted a police investigation leading to the arrests of a former undersecretary and current member of the Public Service Commission, Mustafa Tanju Tokay, as well as the Director of Exams for the Commission, Emir Huseyin. Tokay is a political appointee to the Commission and associated with President Eroglu, leading to speculation regarding Eroglu's possible role in the unfolding forgery scandal.

Given the timing, it was evident that the scandal served to strengthen Prime Minister Kucuk's hand in his bid to secure party leadership in the National Unity Party's congress in October. Whereas his rival, Ahmet Kasif, was not implicated in the scandal, his association with Eroglu served as a liability. The scandal unfolded while Eroglu was in New York, coinciding with the UN General Assembly meetings.

During September Kucuk also reshuffled his cabinet, effectively purging Eroglu associates. Among those replaced included Kasif who had hitherto been Minister of Health. The Minister of Education, Kemal Durust, was also replaced. Meanwhile the Minister of Economy, Sunat Atun, offered his resignation but Kucuk cited the unveiling of the aforementioned economic plan in October and asked Atun to remain in his portfolio.

In September controversy was generated after a religious school opened its doors, following the introduction of a divinity faculty at Near East University with teachers coming from mainland Turkey. The move has been criticized as illegal, contravening existing educational legislation in the North. The curriculum will concentrate on teaching religious instruction, the Holy Quran and Arabic lessons. The ruling National Unity Party (UBP) is closely linked to Turkey's AKP and Özkan Yorgancıoğlu, the leader of the Republican Turkish Party (CTP) accuses Turkey of trying to strengthen its conservative influence based on Tayyip Erdoğan's remark that he aims to 'raise a pious generation'.

## 6. FES Events

UNDP/USAID/FES/CYINDEP/World Vision/EU

### **The Power of One.**

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

9. – 12. October 2012

9. October: 9.00-22.00

10. October: 9.00-18.00

11. October: 9.00-19.30

UN Buffer zone

Nicosia, Cyprus

not open to the public

Post RI/DZF/FES

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

26. – 27. October 2012

26. October: 16.00 - 20.00

27. October: 10.00 - 16.00

Goethe Institute, UN Buffer zone

Nicosia, Cyprus

open to the public

PRIO/FES

### **Good Governance in Cyprus and the Region**

26. – 27. October 2012

26. October: 9.30 - 18.00

27. October: 9.30 - 18.30

Home for Cooperation (H4C), UN Buffer zone

Nicosia, Cyprus

open to the public

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