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1. Cyprus Problem

On the 26th, just a few weeks before the expected resumption of the Cyprus peace talks scheduled for mid October, President Nicos Anastasiades addressed the 68th annual United Nations General Assembly session held between September 24th and October 1st in New York.

Anastasiades presented to world leaders his own vision for Cyprus and a solution to its problem. He specifically referred to his package of proposals regarding the closed town of Varosha which suggested its opening as a confidence building measure for a settlement which would also boost economic activity and create jobs for both communities. He stressed that before the beginning of new talks both sides must agree on ground rules and objectives. The key objective would be the transformation of the Republic of Cyprus into a bi-zonal, bi-communal federal state with a single international personality, single sovereignty and single citizenship. The President also referred to the supplementary role the European Union should take up in the negotiating process. During his stay in the US, Anastasiades held meetings with US Vice President, Joe Biden, US Secretary of State, John Kerry and the UN Secretary General, Ban Ki-moon.

Anastasiades' speech was welcomed by Turkey and was described as constructive and moderate in Turkish media. Two days earlier, Turkish President Abdullah Gul, delivered his own

speech while addressing the session. It was the first time the Greek Cypriot delegation did not walk out during the delivery of a speech of a Turkish president. Gul called on the international community to urge the Greek Cypriots to engage in result-oriented and time framed negotiations in good faith. Gul was also quoted in Turkish media as advising the Greek Cypriot delegation 'not to prolong the job'.

Nicosia had proposed the return of the fenced-off town of Varosha to its lawful inhabitants under UN auspices in exchange for opening the Famagusta port to international trade and unfreezing a number of chapters in Turkey's EU accession process. From a Greek Cypriot perspective, this would serve the government's purpose of creating a new dynamic and could be considered as a potential game changer, improving the relationship between Turkey and Greek Cypriots which is characterized by deep distrust.

Ankara, however, counter-proposes the opening of ports and the Erchan/Tymbou airport in the north in exchange for the opening of Turkish ports and airports to Greek Cypriot registered vessels and aircrafts. Meanwhile, earlier in the month Turkish media reported that Turkish Cypriot leader, Dervish Eroglu, was prepared to open Varosha and allow Greek Cypriot displaced people to return provided they first apply to the Immoveable Property Commission in the north, where their property could (possibly) be reinstated to them. At the same time, instead of coming under UN or Cyprus

Republic control, Eroglu allegedly requests the town's administration to be handled by the Turkish Cypriot municipality in Famagusta, while security would be handled by the Turkish Cypriot police, who are under direct control of the Turkish army in the north.

An important development was marked on September 24th. Following a request from Nicosia and after a meeting held in New York between Greek foreign minister, Evangelos Venizelos, and his Turkish counterpart, Ahmet Davutoglu, Greece and Turkey agreed to hold separate meetings with the Turkish Cypriot and Greek Cypriot negotiators, Andreas Mavroyianis and Osman Ertug, respectively. The main significance of this decision is that for the first time since the Turkish invasion in 1974 a direct channel of communication would open up between the Greek Cypriots and the Turkish government. The newly established direct contact between the Turkish Cypriots and the Greek government is of less significance given the largely passive role Greece is playing in the negotiations. The meeting of the Cypriot officials in their capacity as representatives of their communities in the negotiations with the Greek and Turkish governments cleverly avoids the status problematic that has so far prevented direct talks between the two Cypriot communities and the "mother country" of the other community. Turkey does not recognise the Greek Cypriot dominated government of the Republic of Cyprus, Greece the

administration of the separatist TRNC¹. A series of meetings had proceeded earlier in the month in Cyprus between UN Special Adviser Alexander Downer and the negotiators of the two sides. Downer also met with President Anastasiades and Turkish Cypriot leader Dervish Eroglu. The UN special Adviser also informed the Turkish foreign minister, Ahmet Davutoglu, about the Greek Cypriot proposal for the return of Varosha. Davutoglu stressed that Varosha is not on the agenda and seemed unwilling to discuss the proposal.

On September 18th European Commission President, Jose Manuel Barroso, chaired a meeting in Brussels of the Cyprus Steering Group where he stressed that there was a genuine opportunity to solve the Cyprus Problem. The Group was established by Barroso in 2009 as a means of the European Commission to support the settlement talks and coordinate positions on the EU related aspects of a settlement.

On the 17th, the United Nations Development Programme (UNDP) signed with the Church of

¹ 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).

Cyprus and the Turkish Cypriot religious foundation Evkaf, two contribution agreements worth of €2.5 million for the restoration of the monastery of Apostolos Andreas in the Karpas peninsula.

2. Hydrocarbons

On September 11th, after a week's delay due to mechanical malfunction, the offshore natural gas production test (drill stem test) got underway at the Block 12 granted for exploration and exploitation to Noble Energy and its partners. The US based firm was running the test in order to measure pressure behaviour and obtain information to establish whether the well has a viable commercial hydrocarbon reservoir.

As part of the test, a flame was ignited on the platform in a process known as 'flaring'. Gas samples will be sent to Noble's labs in Houston for analysis and preliminary findings should be available within 3 weeks after the content arrives in Houston. Block 12 has an estimated gross mean average of 7 trillion cubic feet (tcf) of natural gas, with an estimated gross resource range of 5-8 tcf. According to officials, proved reserves of 6 tcf would be necessary for the prospect to be commercially viable. There is a 25% likelihood that a second confirmatory drilling would still be required.

The Natural Gas Public Company (DEFA) decided to terminate negotiations with preferred Russian bidder, Itera, and invited

second ranked bidder, Vitol, to submit an improved proposal on interim supplies of natural gas for power generation, as the island is reliant on costly heavy fuel, oil and diesel. Itera firstly offered \$16 per million BTU, later agreeing to drop to \$14.75, which was still determined too expensive by DEFA. The current spot market rate for natural gas is \$12.5 to \$13. Meanwhile, President Anastasiades stressed that the government was keeping all its options open and asked the auditor general to look into DEFA's electricity utility's formula by which it ascertains the profitability or not of Itera's offer.

3. Greek Cypriots

Economic Developments

According to a report released by the Troika² on September 18, Cyprus has made progress with overhauling its banking sector and pushing forward structural reforms in the economy, but a number of significant risks remain for the island, including an uncertain economic outlook, risks of lower than expected privatization of semi-governmental organisations and continued low confidence in banks.

A new board of directors for Bank of Cyprus (BoC) was elected during the annual general meeting (AGM) on September 10. Six out of the sixteen members of the elected board repre-

² The Troika of lenders is comprised by the International Monetary Fund (IMF), the European Commission and the European Central Bank (ECB).

sent Russian nationals who had lost considerable amounts of money in the forced conversion of 47.5% of deposits exceeding €100.000 in order to recapitalize the bank. A two-week delay, however, by the Central Bank (CBC) in the approval of the elected board prompted President Nicos Anastasiades to contemplate recourse to the Supreme Court, threatening to dismiss the Central Bank governor, Panikos Demetriades. The move sparked the European Commission's and the International Monetary Fund's reaction who expressed consternation at the government's proposal. Cooperation between the government and the CBC governor is essential for the full implementation of the program ahead of the IMF's mission visit in October for the second review of Cyprus' bailout program.

On the 27th the European Stability Mechanism (ESM) disbursed the €1.5 billion to Cyprus for the recapitalization of the cooperative banking sector. The loan will be repaid in two equal instalments of €750 million due in 2029 and 2030, respectively. Cyprus has now received a total of €4.5 billion in ESM financial assistance out of a total amount of €9 billion. The remaining €1 billion of the €10 billion of the international bailout will come from the International Monetary Fund (IMF).

The government plans to fully lift capital controls, which were imposed March, by January 2014, even though a precise timetable was not set for the resuming of normal banking operations.

Russia and Cyprus signed an agreement on the 12th to restructure the €2.5 billion loan the island received in 2011. The agreement provides for the repayment of the loan in eight biannual instalments between 2018 and 2021 with an interest rate of 2.5%. According to Moody's Investors Service, the agreement saved the government €160 million. Meanwhile, President Anastasiades was quoted in Russian media of intending to compensate Russian bank depositors who lost cash as part of the islands bailout program.

According to Eurostat, Cyprus recorded the largest decrease in employment both quarterly and annually in the second quarter of 2013. Compared with the same quarter of 2012, employment in Cyprus fell by 6.1%. According to the Statistical Services unemployment hit new records in August with the number of unemployed reaching 48.451 or 17.3% compared to 48.001 in July. The labour ministry is due to announce additional plans to tackle Cyprus' rising unemployment.

Consumers and companies continued to withdraw deposits from banks in Cyprus. After a 2.4% fall in July, private sector deposits fell by 2.1% to €35.9 billion in August, compared to the €50.5 billion deposits base of May 2012.

On the 28th the committee of inquiry set up to look into the reasons behind the near economic collapse of the country delivered its report to the government. The committee is comprised of former Court President and member of the

International Court of Justice in the Hague, Giorgos Pikis, former Supreme Court judge Andreas Kramvi and Eliana Nicolaou, a former ombudswoman and judge. The committee was initially tasked with probing possible civil, criminal or political liabilities concerning developments in Cyprus' economy and banking sector, but decided to rule itself out of looking into any criminal responsibility that may exist and focused instead on political responsibility. Former president Demetris Christofias refused to take oral questions from the panel. The findings of the report are yet to be announced.

Domestic Developments

In one of the biggest bribery scandals that have been revealed up to date, involving members of the higher echelons of the Cyprus Telecom (CyTA), a trade union representative, a land registry official, a Greek businessman as well as two policemen and the country's communist party AKEL, arrest warrants were issued and key suspects remanded in custody, charged with bribery, fraud and other offences. It appears that the accused were part of a dubious land deal worth over €20 million. The land near Larnaca was sold to the CyTA pension fund by a Greek businessman at several times the price than it was bought from the original owner, a Turkish Cypriot who had a forged a residence title of the Republic of Cyprus. It appears that part of the money was given to ALKI football club which is affiliated with communist AKEL. AKEL was the governing party in Cyprus when

the transaction took place. In this context an AKEL MP is being accused of having received kickbacks. According to the *Cyprus Mail*, AKEL spokesman Kyprianou, however, 'saw nothing reprehensible in the payment of €234,000 to the party's Larnaca District Committee' as the money was given to members of the football club who had taken out loans in order to support the football club financially and were unable to pay back their debts. In the face of the latest revelations, justice minister Ianos Nicoalou promised 'that the days of impunity' were over.

In this context, parliament agreed to revise the current legislation governing transparency in party finances in order to comply with the recommendations of GRECO, the Council of Europe's anti-corruption group. Under the current legislation a number of issues need to be amended, such as: banning anonymous contributions to parties; all party transactions must go through banks; a legal obligation of parties to publish their accounts; prohibition of donations to parties by state-controlled enterprises (as for example semi-governmental organizations); parties must be liable in court like any other legal entity; deterrent penalties when parties fail to submit their accounts to a public audit, such as fines or a ban from receiving state grants.

As part of the restructuring and austerity program Cyprus is expected to implement – the long overdue - National Health System (NHS) by the end of 2015. The aim is to reduce the rising

health expenses. A number of steps need to be taken as for example the creation of an IT system. It is estimated that with the new NHS the state could save up to €292 million over a period of 10 years. The state would have to contribute 4.55%, whereas waged employees would give 2.23%, the self-employed 3.97%, pensioners 2.23% and employers 2.55% of their gross salaries. As a first step civil servants will also contribute 1.5% of their gross salaries to the health fund. At the same time, fees were introduced for the use of accident and emergency services, visits at state doctors and medicines and lab tests. Currently, Cyprus is the only EU member state without a universal coverage system for its health sector.

On another front in the strife to cut expenses, President Anastasiades plans to swiftly implement the civil service reforms to make it more efficient and flexible. PASYDY, the civil servants' trade union, refuses to co-operate in this matter with the public service reform commissioner, Emmanuela Lambrianides, maintaining that the civil service 'should be left alone'. The reforms rest on five pillars: bolstering the capacity for strategic planning, drafting policy and coordination, restructuring the service's operation, better use, education and reinforcement of human resources and improvement of relations between state and public. The plans for the reforms are to be implemented by 2016.

In the meantime, the number of public employees taking early retirement is increasing. While in 2011 344 employees opted for early retire-

ment, the number in 2012 stood at 734 and in 2013 there have been already 730 early retirements. It is expected that the total number of early retirees may exceed 1.000 by the end of the year. In some cases, the retirement bonus for individual retirees can be more than €200.000 and many public servants fear that this bonus might be reduced in the future. In addition to the large sums to be paid, there are gaps left behind as qualified staff is leaving the public service. Another point of disagreement between government and trade unions is the transfer of staff between ministries. As a result some ministries are overstaffed while others lack staff. Amongst the civil servants who were transferred to other departments a high number of appeals are issued.

4. Turkish Cypriots

The month of September commenced with the formation of a new government. Following parliamentary elections in late July and subsequent inter-party negotiations to agree to coalition conditions, parliament was presented the Council of Ministers list on 2 September. The ministers were comprised of members from the two coalition partners, the Republican Turkish Party-United Forces (CTP-BG) and the Democrat Party-National Forces (DP).

The full list is as follows: CTP-BG's leader Ozkan Yorgancioglu would serve as Prime Minister. Serdar Denktas, who heads DP-UG, would serve

as Deputy Prime Minister and hold the portfolio of the Ministry of Economy, Tourism, Culture and Sports. The Ministry of Interior was assigned to Teberruken Ulucay of CTP-BG. Other ministries under CTP-BG included Finance (which was assigned to Zeren Mungan), Foreign Affairs (assigned to Ozdil Nami), Labor and Social Security (Aziz Gurpinar), Food, Agriculture and Energy (Onder Sennaroglu), and Health (Ahmet Gulle). The remaining portfolios were distributed among DP-UG members. Development and Transportation went to Ahmet Kasif. Environment and Natural Resources was assigned to Hamit Bakirci, and Education to Mustafa Arabacioglu.

The next day the ministers took office through ceremonial transfer of power from the transitional government ministers that served for a couple months following the scheduling of early elections and the vote of no confidence in the previous government.

Somewhat surprising was the omission of Sibel Siber from the Council of Ministers, a popular CTP-BG politician who served as the first female Prime Minister during the transitional government period. Moreover, she had received the highest number of votes among CTP-BG candidates in the July poll. Against this she was offered, and accepted, the ceremonial but prestigious position of Speaker of Parliament.

The government program was presented to Parliament on 9 September. The government received a formal vote of confidence on 12 Sep-

tember. 32 MPs voted in favor with 16 casting votes against. 2 MPs failed to vote on account of absence.

The formalities of the new government's formation coincided with diplomatic activity to restart Cyprus peace talks in the autumn. The appointment of Ozdil Nami as foreign minister presented an opportunity to the Turkish Cypriot side to present a united front to the Greek Cypriots and the international community alike. Whereas Nami had served as Mehmet Ali Talat's special representative during Talat's term as TRNC president and chief negotiator, his new role as foreign minister limits his formal engagement in the negotiations. Nevertheless, his association with Talat and his good relations with diplomats and the UN Good Offices mission means he will play a more significant role than his predecessor and former TRNC foreign ministers.

Significantly, president Eroglu and Nami aligned on Cyprus settlement talk strategy, particularly with respect to the modality to kick-start talks by October, if possible. Whereas the Greek Cypriot president, Nicos Anastasiades, had raised the matter of the transfer of Varosha (Maras) as part of a confidence building measure (CBM) the Turkish Cypriot side coalesced in opposition to this approach, insisting that the Varosha issue remain embedded within the comprehensive settlement talks that entailed territorial matters as a chapter of negotiation. Similarly, the Turkish Cypriot leadership argued that territorial issues were not to be discussed

first but at the end of the negotiation process. Eroglu and Nami concurred on these points and made public statements on both matters.

More formally, Eroglu initiated consultative contacts with the government through a meeting with prime minister Yorgancioglu, deputy prime minister Denktas, and foreign minister Nami in mid-September. The effort to present a united front continued through coordination meetings within the Turkish Cypriot community and with Turkish representatives. Nami met with Turkish foreign minister Ahmet Davutoglu prior to the United Nations General Assembly meetings held in New York later in the month.

Ban Ki Moon's Special Adviser to Cyprus, Alexander Downer, engaged in shuttle diplomacy in an effort to realize a breakthrough that would allow all sides to agree to restart talks. It was reported that Downer discussed Anastasiades' views with Turkish foreign minister Davutoglu. Coinciding with this Turkish media leaked a supposed plan of the Turkish side to open Varosha unilaterally, allowing property owners to apply to the Turkish Cypriot Property Commission for effective remedy, presumably implying reinstatement of properties. However, officials, including Eroglu and Nami, rejected that there were such imminent plans.

Downer's attempts to engage Turkey followed limited efforts on the island to seek procedural consensus. Controversial from the Turkish Cypriot perspective was Anastasiades' appointment of Andreas Mavroyannis as 'negotiator'

whereas historically the president served as chief negotiator while merely appointing a special representative to deal with technical aspects of the talks. Downer had had dinner with Mavroyannis and Eroglu's special representative on 10 September, but differences remained.

Diplomatic efforts did lead to a partial breakthrough. Turkish foreign minister Davutoglu and Greek deputy prime minister and foreign minister Evangelos Venizelos agreed that it would be useful to engage bilaterally with the Greek Cypriot and Turkish Cypriot representatives. Thus, unprecedentedly, Turkey would be prepared to discuss Cyprus problem matters directly with a Greek Cypriot representative. Similarly, Greece would engage Turkish Cypriot representatives. Details of the deal remained sketchy and potentially vulnerable to the continued dilemma of non-recognition. Turkey remains adamant that it does not recognize the Republic of Cyprus and that a comprehensive settlement is a precondition for diplomatic relations.

Turkey pushed for the restart of talks through President Abdullah Gul's speech at the UN General Assembly. Meanwhile Eroglu met with UN Secretary General Ban Ki Moon in an effort to outline the Turkish Cypriot views on how to recommence settlement negotiations.

September ended with reports that the Downer was attempting to draft a joint statement document that would ostensibly bridge the various differences between the sides.

5. FES Cyprus Events

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



18.11.-20.11. November 2013

BROOKINGS INSTITUTE / PRIO CC / FES

Conference

East Mediterranean Hydrocarbons: Geopolitical and Industry Perspectives, Markets and Export Routes, and Regional Cooperation

Open to the public



29. -30. November 2013

ADHR / CYPRUS ACADEMIC FORUM (CAF)/ FES

Conference

The Role of Education in a Divided Country: the Case of Cyprus

Open to the public

Impressum:

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Web-Page (running as of October):

www.fescyprus.org

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