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1. EU Presidency

In early October the European Commission organized in Brussels the Connecting Europe Facility (CEF) conference. The CEF is an instrument proposed by the European Commission under the EU's new MFF (Multiannual Financial Framework) between 2014 and 2020. CEF is set to put forward infrastructure projects on transport, energy and digital networks that are necessary for the implementation of Europe 2020 strategy. The event was opened by the President of the European Commission, José Manuel Barroso. On behalf of the Cyprus Presidency Communications and Works Minister, Efthemios Flourentzou, stressed the importance of advancing the negotiations for the CEF

On the 8th October EU Ministers responsible for maritime affairs adopted a political declaration aiming at taking the EU's Integrated Maritime Policy (IMP) one step forward. Five years after the policy's initial launching in Lisbon the so-called Limassol Declaration was presented by Cyprus' Communications and Works Minister, Efthemios Flourentzou, in the attendance of the President Demetris Christofias and the President of the European Commission, José Manuel Barroso. The Limassol Declaration, which is a Cyprus presidency initiative, is expected to mark a milestone for the future implementation and development of the EU's IMP, by providing guidelines for a comprehensive and coherent approach to the maximum sustainable exploitation of the EU's seas and

oceans for achieving economic growth and thus meeting the objectives of the Europe 2020 strategy.

During the ECOFIN Council meeting which took place in Luxembourg on the 9th, EU Economy and Finance Ministers took stock of developments with regard to the introduction of a Financial Transaction Tax (FTT) in a limited number of Member States via the process of enhanced cooperation. Ministers also held an exchange of views on the way forward regarding the European Semester, the Capital Requirements Directive IV (CRD IV) package and EU participation in international forums. The CRD IV package aims at strengthening the regulation of the banking sector by transposing into EU law the Basel III agreement, which was approved by the G 20 in November 2010. It will form an essential element of the single rulebook and it is considered important to adopt it before the implementation of the Single Supervisory Mechanism (SSM) early 2013. The meeting was chaired by Cyprus' Finance Minister, Mr. Vassos Shiarly.

On the 10th the Cyprus Presidency oversaw the preliminary agreement by EU Research Ministers on the Regulation of the Rules for participation and dissemination in the next EU funding programme for research and innovation for the period 2014-2020 (Horizon 2020) as well as on the amended Regulation of the European Institute of Innovation and Technology (EIT). The adoption of both regulations requires the consent of the European Parliament (co-deci-

sion) as well as the passing of the Multiannual Financial Framework to set the budget for Horizon 2020. The meeting was chaired by Cyprus' Health Minister, Dr. Stavros Malas, who is in charge of the research portfolio during the Cyprus Presidency.

Elements of the Cohesion Policy legislative package for 2014-2020 have been approved during the General Affairs Council (GAC) on the 16th October. Cohesion policy is the main development policy of the Union which aims at reducing economical, social and territorial disparities that exist among EU member countries. A general agreement was reached on territorial development, European territorial cooperation, financial issues, management and control systems, information and communication, technical assistance and country specific recommendations and indicators. The Cohesion Policy is closely linked to the negotiations for the 2014-2020 MFF and considered a top priority by EU institutions. The Cyprus Presidency intends to work towards an agreement on additional elements of the Cohesion Regulations.

The European Council met in Brussels on the 18th and 19th to discuss the future of the Economic and Monetary Union and in particular the Single Supervisory Mechanism (SSM), the situation in Greece, the Compact for Growth and Jobs and Foreign Policy related issues. Measures to promote growth were the main point of discussion during the Tripartite Social Summit held in Brussels ahead of the European Council meeting.

On behalf of the High Representative of the Union for Foreign Affairs and Security Policy and Vice President of the Commission, Catherine Ashton, Minister of Foreign Affairs, Dr. Erato Kozakou-Marcoullis visited the European Parliament to brief the Committee on Foreign Affairs (AFET) on the October 15 Foreign Affairs Council (FAC) meeting. Referring to Syria, Marcoullis underlined the priority to immediately stop the killings of Syrian civilians. She repeated the Council's full support for the Joint Special Representative of the UN and the League of Arab States, Lakhdar Brahimi, emphasizing the EU's efforts to address the humanitarian crisis. Minister Marcoullis also conveyed the Council's concerns regarding the spill-over effects of the Syrian crisis to neighbouring countries. With regards to the 2012 Nobel Peace Prize to the EU, Marcoullis stated that the award increases the EU's responsibility for peace efforts especially in the EU's Southern Neighbourhood. The award is given to the EU in recognition of its achievements in promoting peace, reconciliation, democracy, human rights and the rule of law over the last 60 years.

On the occasion of the Single Market Week, the Cyprus Presidency organized the "Single Market for Growth" conference in Nicosia to celebrate the 20th anniversary of the creation of the EU's Single Market.

The Cyprus Presidency and the President of the European Parliament authorized on the 23rd a Conciliation Committee with formulating an agreement on the 2013 budget as a result of

diverging positions by Parliament and the Council regarding the draft 2013 EU budget proposed by the Commission. The Council's position amounts to €132.70 billion in payments, an increase of 2.79% compared to 2012. The Parliament asked for €137.90 billion in payments, an increase of 6.82%. The Commission proposed a total amount of €137.92 billion corresponding to an increase of 6.85%. The Conciliation Committee has to reach an agreement within 21 days of it being convened (namely by November 13). Striking a deal on the EU budget ahead of the European Council meeting on 22nd – 23rd November, during which an agreement on the MFF might be reached, is important. This was pointed out by Deputy Minister for European Affairs, Ambassador Andreas Mavroyiannis, during the European Parliaments Plenary meeting in Strasburg as being one of top priorities of the Cyprus Presidency.

The revised Negotiating Box for the 2014-2020 MFF, which proposes savings of at least €50 billion, was presented on the 29th by the Cyprus Presidency. The Negotiating Box will act at the basis of further negotiations, in light of next month's European Council meeting, during which the Heads of States and Government will aim to reach a final agreement.

2. Cyprus Problem

1st of October marked the celebration of the Republic's 52nd Independence Day. In his address President Christofias pointed out that

independence was the most important achievement of the Cypriot people and repeated that partition was catastrophic for the country. He reiterated that there was only one option in reaching a settlement of the Cyprus problem: a bizonal, bicommunal federation with political equality, one state, one sovereignty and one nationality. He also blamed Turkey and the Turkish Cypriot leadership for aiming to push for a two-state solution.

Demands by presidential candidate Giorgos Lillikas to close the crossing points after the arrest of three Greek police officers by Turkish troops earlier this month were countered by the government, stressing that this would send a wrong message to the international community, the EU, the Turkish Cypriots and harm the interests of the Republic of Cyprus. The three Greek Cypriot police officers were apprehended after they crossed into the north near the village of Dhali, while chasing a Turkish Cypriot vehicle whose driver had failed to stop for a check. The driver was apparently suspected to be involved in drug trafficking.

UN Spokesman Martin Nezirski commented on the hydrocarbon proposal by Turkish Cypriot leader Dervis Eroglu to UN Secretary General Ban Ki-moon. Nezirski stressed the need of the two communities to reach an overall settlement and that hydrocarbon reserves and other natural resources could benefit everybody. Eroglu's proposal suggests the appointment of a facilitator by the UN Secretary General in order to chair a technical committee on the issue of

hydrocarbons in the island's Exclusive Economic Zone. The committee's members are to be appointed by the two leaders with a mandate to produce a written mutual consent on the share of hydrocarbon resources for each side. The revenue will be put into a separate account to be administered by the technical committee, which in turn is to use the funds to promote the provisions of an overall settlement.

In the meantime Turkish Leader Dervish Eroglu urged to speed up the Cyprus talks after next year's presidential elections in the south. According to Eroglu the negotiations could not resume automatically from where they were left off after the election of the new president and thus there is a need to open a new page in the Cyprus talks. The negotiations needed also to have deadlines, timetables and a final give-and-take process. This stands however, in stark contrast to the UN efforts, which intend to build on what has already been decided. The UN is currently preparing a document on convergences and divergences in the talks in order to clarify the basis of negotiations and lock in whatever has already been discussed. This was discussed during a recent two-day meeting in New York between UN Officials on the 22nd and 23rd which was also attended by Special adviser Alexander Downer and Special Representative Lisa Buttenheim.

3. Hydrocarbons

The government formally announced this month the establishment of a state-owned hydrocarbons company to handle all aspects of natural gas, including its import, liquefaction, transport and export.

The company, bearing the Greek acronym 'KRETYK', is modelled on Norway's Statoil, a leading energy company in oil and gas production. The company is a public-law entity governed by private law, and 100% state-owned. Four persons have been appointed on the company's board as non-executive members:

- Energy chief Solon Kassinis,
- Andreas Zachariades, Deputy Accountant General of the Treasury and a member of the government-appointed team conducting negotiations with US firm Noble Energy,
- Nicos Papaefstathiou, a lawyer and partner in the Tassos Papadopoulos & Co. law firm,
- Christos Efthymoulou, senior mechanical engineer at the Ministry of Communications and Works and former head of the Scientific and Technical Chamber of Cyprus (ETEK).

The three executive board members are:

- Charalambos Ellinas, managing director of the Mott MacDonald group's global oil and gas operations,
- Stavros Stavrou, current chairman of the board of Cyprus Airways, and formerly with Oilinvest (Netherlands) B.V,
- Apostolos Andronikou, who since 1982 has worked with Lloyd's Register EMEA Oil & Gas Group.

Under the current legal framework, the company would be under the absolute control of the government of the day with the legislature having no oversight over it.

Opposition politicians accused Silikiotis for stealthily expediting the establishment of the company. The majority of MPs demanded that the establishment of the company be postponed until the House approves a bill defining the mandate of the company. Opposition politicians fear that ruling AKEL might take complete control of the entity and monopolise the administration of hydrocarbons.

In order to prevent the Christofias administration from controlling lucrative gas distribution contracts, parliament, with the exception of AKEL, earlier this year decided to divide the job between the Public Company for Natural Gas (DEFA) and the Energy Regulatory Authority (CERA). DEFA will import, distribute and supply natural gas locally, while CERA in addition to its

regulatory role, will be in charge of exporting natural gas.

DISY's Averof Neophytou has claimed that any state payments to the company are "illegal" as they are not provided for in the budget. According to Neophytou the appointment of directors who are not public functionaries entails a public expenditure and that any authorization for payment is valid only if they are included in the year's budget. However according to Neophytou the 2012 budget makes no reference to the state hydrocarbons company.

US firm Noble Energy announced follow-up appraisal drilling for natural gas at the Block 12 prospect during the first quarter of 2013. At the Economist's "Cyprus-EU Presidency Summit" conference in Nicosia, Noble Energy's operations director in Cyprus John Tomich, did not rule out a search for oil in deepwater strata in Cypriot waters next year. Tomich also stated that Cyprus's offshore block 12 may carry potentially a lot more than the 7 trillion cubic feet (tcf) of natural gas originally estimated.

As part of the second licensing round which was launched last February, the government announced four licenses for gas exploration in offshore blocks 2, 3, 9 and 11, which are contiguous to block 12. Licenses were given to consortia consisting of ENI from Italy, KOGAS from South Korea, Total E&P Activities Petrolieres from France, as well as NOVATEC Overseas Exploration & Production GmbH and GPB Global Resources BV from Russia. In total,

15 bids from five companies and 10 from joint ventures were submitted. Negotiations with the companies and consortia leading to exploration contracts will begin soon and should be completed within a few months. The government expects to make several millions from signature bonuses which will be signed sometime in 2013. A payment is made upfront to the host country for the right to develop a block commercially before work begins.

DEFA announced on the 29th that it has received 17 bids for the supply of natural gas promoted as an interim solution until Cyprus' gas reserves are developed around 2018. The company said it would not disclose more details about the process for the gas supply since it is bound by a confidentiality agreement with the potential suppliers

4. Greek Cypriots

Economic Development

After almost three months since the Troika (European Commission, International Monetary Fund and European Central Bank delegation) submitted its proposals on 25th of July, the government finally completed and sent its counterproposals for the bailout adjustment program on Monday, 22nd. The timing is crucial since on November 12 the next Eurogroup meeting is going to take place. The counterproposals were set after intense consultations with political parties, unions and social

partners, while the government is accused of a delaying tactic ahead of the presidential elections. While the Troika had put a much greater emphasis on cutting expenses, the counterproposals clearly aim to a much higher degree to generate additional income for the state. The European Commission confirmed on the 23rd that it had received the Cypriot counterproposals. But no date of the troika's return on the island had been decided, when October came to a close, with time running out quickly.

The government and the political parties appeared to be united in their rejection to the proposals submitted by the island's international lenders. The focus is on preserving the 13th salary; reforming the wage indexation system instead of abolishing it; staggered, not horizontal cuts to the public payroll; cooperative banks to maintain their independent supervision instead of being regulated by the Central Bank and not selling profitable semi-state companies. Other contentious issues are the extension of the retirement age in the public sector from 63 to 65, the creation of casinos and the rate of tax increase for alcohol and tobacco.

The government is trying to preserve confidentiality by not giving to the parties the final proposals it sent the troika. Reports suggested the proposals include a 5.0 % rise in fuel tax from 2014, a rise in VAT by 1.0 percentage point to 18 % in 2013 and to 19 % in 2014, a 20% rise on betting and an annual company levy

of €350 that will include inactive entities. It is expected that salaries between €1001 and €1500 would be slashed by 6.5 % (instead of by 5 as suggested by the troika), from €1501 to €2000 by 8.5%; from €2001 to €3000 by 9.5 %; €3001 to €4000 by 11.5% (instead of by 11%); and €4000 and over by 12.5% (instead of 12%). No cuts will be made to salaries under €1000.

The government opposed the troika's proposal for the seizure and sale of properties used as collateral held against bad loans after a period of 18th months. This could mean that a considerable number of homeowners without title deeds will have to face seizure and sale of their properties. This would be completely new in Cyprus since house owners who could not service their loans were so far not evicted from their property by banks in the past. The troika wants problematic loans to be declared as non-performing after 90 days, while the government wants a five year extension pending seizure of a property.

Moreover, many construction companies in Cyprus borrowed money using title deeds of houses they build as collaterals, holding on to them for several years although their customers had long paid them in full. In the event that these companies go bankrupt, there will be an increased risk of many people losing their properties since under the Troika's current proposal the banks will be forced to auction the houses as collaterals.

The austerity proposals include spending cuts worth around €670 million and some €310 million in revenues, in return for a bailout for the Cypriot banks and the state expected to range from €10 to 20 billion. The dimensions of financial problems on the island become clear if one takes into account that the annual GDP of the Republic of Cyprus is around €17 billion! The government wants a four-year adjustment period instead of the troika's three year suggestion. Central Bank Governor Panikos Demetriadis confirmed that Cyprus was seeking direct recapitalisation for the banks through the European Stability Mechanism (ESM) and assured that the Cypriot debt is manageable.

Meanwhile, Russia said it has not received any request from Nicosia to extend the terms of the €2.5 billion loan granted last year and that there has not been any progress on a new €5 billion loan application. Russia made it clear that it would only grant a bailout loan to Cyprus as part of and in coordination with a EU rescue plan.

The slow progress in responding to the Troika's memorandum by the government has been heavily criticized by the media and the opposition.

Moody's ratings agency has cut the island's bond rating by three notches further into junk status due to the profound difficulties faced by the banking sector because of deteriorating

conditions in Cyprus and Greece as well as the government's slow response. The same day Eurogroup President Jean Claude Juncker urged Cyprus to speed up deliberations to complete the negotiations with the troika Standard & Poor's also downgraded Cyprus three notches to "B" from "BB" with a negative outlook, saying electoral considerations contributed to "policy inertia".

Some numbers illustrate the increasingly dramatic financial and economic situation:

- The poverty and social exclusion rate increased between 2009 and 2010 placing between 120-130 thousand people under the poverty line based on a population figure of 839 thousand.
- The number of registered unemployed for September 2012 has increased to 38.253 persons compared to 36.967 in August. Compared to September 2011 the number of unemployed increased by 8.367 or 27.99%. According to Eurostat unemployment in Cyprus recorded the second highest increase in the EU between August 2011 and August 2012 rising from 8 to 11,7%.
- Cyprus' debt to GDP ratio rose 16.5 percentage points year-on-year in the second quarter of the year, to 83.3%, recording the highest increase in the EU. At the end of the second quarter of the year, Cyprus owed some €14.9 billion, compared to €13.5 billion in the first quarter and

€11.8 billion in the second quarter last year.

Domestic Developments

Ahead of next February's presidential elections Cyprus' Health Minister, Stavros Malas, handed in his resignation on 15th October in order to run as candidate. Malas, who is formally running as an independent candidate, is backed by ruling AKEL. Incumbent President Christofias is not seeking re-election. Malas is challenged by Nicos Anastasiades who heads the right-wing Democratic Rally and independent candidate George Lillikas who is backed by EDEK.

The Cyprus Green Party announced earlier this month that a decision which presidential candidate the party is going to support would be made in November. The Greens will make their decision dependent on the stance the various candidates take on how the economic crisis should be faced.

Before his resignation as Health Minister, Malas revealed that the public sector within the Cypriot health system is facing rapidly growing problems. 80% of the population now use the state services whereas prior to the financial crisis a large percentage visited private doctors. The figures show the doctor – patient ratio in state hospitals is now 1:1.000 instead of 3:1.000 as it was before the current crises. The health care system in Cyprus has been under heavy

criticism. Demands to introduce a primary-care-driven health-care coverage system for the entire population have not been met so far. According to a survey from 2009 Cypriots paid 52% of health-care cost out-of-pocket (43% of the population paid for private prescriptions). The current system has also made tax evasion on the side of private practitioners easy, which in the context of the current financial crisis has been increasingly criticized.

The cash-stripped island might have to pay up to €1 million a day for failing to get rid of the 60 landfills still in operation. Cyprus might face the loss of EU funding covering two thirds of the costs for the building of waste management plants if the government does not invite tenders by the end of the year. If Cyprus continues to operate three to four landfills as opposed to the 60 current in operation, it will still have to pay penalties of €7 – 8 million a year. It is estimated that the earliest date for the completion of waste management plants might be mid-2015.

The best-known Cyprus dairy product – halloumi cheese – is in great demand both at home and increasingly abroad. Exports grew from just €13 million in 2001 to €54 million in 2010. To meet demands, cheese producers have changed the traditional recipe consisting mainly of sheep or goat milk and use up to 90% of cow's milk. In order to get halloumi protected by EU as a Cypriot specialty, the government set the goat and sheep content to

a minimum of 51%, which caused tumult amongst the big cheese producers who announced legal as well as strike action to counter the decision.

5. Turkish Cypriots

Economic Developments

Prime Minister Küçük paid a visit to Ankara on 3 October where he met with Turkish Prime Minister Tayyip Erdoğan to discuss details of a three-year plan for the TRNC economy for fiscal years 2013-2015. Inter alia the two also discussed an array of matters related to problems in the Turkish Cypriot community affairs, including the ongoing crisis in the Nicosia municipality in the north. This was followed by further technical level meetings that were intended to lead to a formal protocol for the implementation of the economic plan.

During the Ankara meeting there was also agreement to initiate a tender process for including electric cables in the existing water pipeline project that is meant to transfer water from Turkey to northern Cyprus.

During the month of October road works financed through Turkey continued. The minister for public works and transportation announced that Turkey's contributions for 2012 amounted to 115 million Turkish Lira (roughly 50 million Euro).

Against this, a proposed fuel storage facility continued to prove controversial. President Eroğlu continued to express opposition to the project on environmental grounds. This was echoed by the Initiative to Say No to the Fuel Storage Facility. The Initiative declared its intention to take the matter to the Constitutional Court to challenge a decision in August of the Council of Ministers to forge ahead with zoning in the Iskele/Trikomo region.

The government enjoyed more popular support for the “project of the century”, formally known as the “TRNC water supply project”, a pipeline bringing water from Turkey to the north. The project is planned for completion in March 2014. Ground was broken in October for the construction of a dam in the Guzelyurt/Morphou region. In March 2011 Turkey began constructing a large reservoir in southern Turkey near the Alakopru Dam. Ultimately the project envisions that annually up to 75 million cubic meters of water will be transferred via underwater pipelines. Half of this would be drinking water and the remainder for irrigation purposes. The project is estimated to cost more than 300 million Euro.

The Council of Ministers authorized the signing of a contract with Tasyapi Construction company that had won a bid in September to administer and develop Ercan/Tymbou airport through a 25 year lease. The tender result was also formally approved by the competition council. Details of the contract emerged. A local company would hold 10% of shares and

the newly forged partnership company, Tasyapi-Terminal construction, would pay roughly 50 million Euro in advance but would not share revenue with the government for the first four years of the contract during which a terminal would be constructed at Ercan/Tymbou airport at a cost of 350 million Euro

Meanwhile, negotiations with labor unions commenced in preparation for the 2013 budget approval. Union leaders sought pay raises in the face of COLA suspension in 2012.

Domestic Developments

The ruling National Unity Party’s (UBP) Congress was held on 21 October. The run up to the Congress was tense with speculation that Turkey favored the incumbent Prime Minister, Irsen Kucuk, over his rival, Ahmet Kasif who was associated with President Dervis Eroglu. Allegations of corruption within the UBP surfaced in an apparent attempt to implicate Eroglu and discredit Kasif. There were also prominent defections among Ministers previously pledging support for Kasif. Despite these developments Kasif did not withdraw his candidacy.

The election of the new party leader, hence Prime Minister, ended controversially with disagreement over governing rules. Prime Minister Irsen Kucuk secured 704 delegate votes to 690 for the only other candidate, Ahmet Kasif. The result was a blow to Kucuk who would have

hoped for a larger margin of victory. Moreover, the outcome was legally contested. One interpretation of the relevant by law suggests that a majority of all delegate ballots and not simply a majority of voting delegates was required. Against this, following voting the Congress Council Chairman, Foreign Minister Huseyin Ozgurgun, declared Kucuk the winner despite alternative interpretations. Shortly thereafter Kasif announced his intent to legally contest the outcome seeking an injunction through the (Turkish Cypriot) Nicosia District Court. The Court was to hold a hearing on 2 November. The crisis within the ruling UBP party contributed to a sense of overall chaos in Nicosia.

The financial and political crisis at the Turkish Nicosia Municipality (LTB) featured prominently in domestic politics. The Municipality Worker's Union (BES) declared an indefinite strike. Consequently services were not provided leading to concerns that accumulated garbage could potentially lead to a health crisis.

The mayor, Cemal Bulutogullari, himself of UBP, resisted calls for his resignation, citing the possibility of concluding a concessional loan deal with Turkey's Ziraat Bank. He blamed opposition party members in the Municipal Council for blocking the deal. BES called for a rally on 31 October where Municipal Council members were called upon to collectively resign, presumably challenging the Mayor's legitimacy.

Internationally, the European Commission's Progress Report on Turkey's accession talks led to some consternation on the Turkish and Turkish Cypriot sides. Regarding Cyprus, the Turkish Foreign Ministry overtly resisted calls in the Commission's report calling for 'normalization' in relations between Turkey and the Republic of Cyprus.

The Commission report coincided with the ratification of a continental shelf delimitation treaty signed in September 2011 between Turkey and the TRNC. The results were published in Turkey's Official Gazette on 10 November 2012.

Turkey's Minister for EU Affairs and Chief Negotiator in accession talks, Egemen Bagis, paid a visit to the TRNC on 15 October, underscoring Turkey's anger over the EU's alleged 'double standards', claiming the 17 out of 33 negotiation chapters remained blocked due to political factors.

6. FES Cyprus Events

Friedrich Ebert Foundation (FES)
Cyprus/Athens/Istanbul

Meeting of Journalists

16. – 18. November 2012

16. November: 17.00-19.00

17. November: 9.30-18.30

18. November: 9.30-13.00

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