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1. Cyprus Problem

During the month of October the negotiators of the Greek Cypriot and the Turkish Cypriot communities engaged in talks with a view to conclude a joint statement acceptable to both community leaders before the latter embark on direct talks. What prevailed, however, were the differing positions on both sides and their disagreements on the substance of the talks and the procedure that should be followed.

The Greek Cypriot negotiator, Andreas Mavroyiannis, stressed that the two leaders will not meet before an agreement is reached on the basis of the solution and the procedures of the peace talks. The Greek Cypriots favour a holistic approach where all issues are dealt with concurrently, since many aspects of the peace talks are interlinked. On the other hand, the Turkish Cypriot negotiator, Osman Ertug, argued that the insistence on a joint declaration is setting preconditions at the start of talks while the Turkish Cypriots are ready to begin without any prerequisites from the point talks were previously left off. A fundamental dispute appears to evolve around the issue of sovereignty. The Greek Cypriots are keen on seeing a federal state being born through the transformation of the Cyprus Republic and consequently insist on the concepts of “single sovereignty” and “single citizenship”, while the Turkish Cypriots demand the terms “residual powers” and “internal citizenship” to be included in the text, supporting the view that a new partnership will be formed in a new federal state. Moreover, the Greek Cypriot side wants an upgraded role of the EU in the talks, by having a legal representative of the European Council appointed to the UN Good Offices but this demand is opposed by the Turkish side.

Although Mavroyiannis and Ertug agreed to arrange separate visits to Ankara and Athens for

talks with the undersecretaries of the Turkish and Greek foreign ministries, by the end of October no dates for such meetings had been agreed.

On another front, President Anastasiades met with Greek Prime Minister Antonis Samaras on October 11, where he repeated his call for a new impetus to the talks and referred to his Varosha package proposal. The proposal envisages the a package deal for the return of Varosha to the Greek Cypriots while in exchange the Famagusta harbour would be opened together with EU negotiation chapters for Turkey.

A day earlier, during a joint press conference, Turkish Foreign minister Ahmet Davutoglu and his “TRNC”¹ counterpart Ozdil Namil referred to a “window of opportunity” and emphasized the importance of re-starting the negotiations by November. Turkey wants to see the talks resume as soon as possible and concluded swiftly under a timetable by March 2014, where a referendum should be held. November 4 was suggested by UN Special Advisor Alexander Downer as a possible date for the two leaders to meet, provided that an agreement would be reached on a joint statement.

On the sidelines of the European Council meeting held in Brussels between October 24-25, President Anastasiades met with the Presidents of the European Commission and Council,

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).

Jose Barroso and Herman Van Rompuy respectively, in order to discuss ways of enhancing the EU's role in the current attempt to restart a new round of Cyprus peace talks. As stated above, Nicosia wants the EU to be present during the peace process with a representative of the European Council - not the Commission, to ensure that any political agreements will comply with the EU Acquis. At the core of the proposal is the argument that a senior Council representative will have more political weight compared to a European Commission technocrat. The government's call, however, has not been warmly received either by Turkey, the UN or the EU. Greek Cypriot press reports accused Alexander Downer, for allegedly contacting the President of the European Commission, Jose Manuel Barroso, opposing the demand for greater EU involvement in the peace talks. These accusations were refuted by the UN.

Meanwhile the Turkish Cypriot Foreign Minister, Ozdil Nami, met with the EU Enlargement Commissioner, Stefan Fule, in Strasburg on October 23 to discuss the Green Line regulation, financial aid and the isolation imposed on the Turkish Cypriots.

The EU will launch a new round of accession talks with Turkey in November following a three-year hiatus, after Germany dropped its opposition which was prompted by Ankara's response to the Gezi Park protests. Chapter 22, relating to "regional policy and the coordination of structural instruments" is not included in the 8 negotiating chapters frozen by the EU in 2006,

following Turkey's refusal to open its ports and airports to the Cyprus Republic. Furthermore, the 6 chapters frozen by Cyprus unilaterally in 2009 are not part of the package.

Earlier in the month, Anastasiades appealed to the International Maritime Organization (IMO) and the European Commission to exert influence and leverage towards lifting the Turkish embargo on ships sailing under Cypriot flag as part of his package proposal of confidence building measures which also includes the return of Varosha.

2. Hydrocarbons

On October 3, Noble Energy announced the result of the second appraisal drilling for the Aphrodite field of Block 12. The findings were lower than widely expected but still considerable. The field holds between 3.6 trillion cubic feet (Tcf) and 6 Tcf of natural gas with a gross mean of approximately 5 Tcf. Exploratory drilling carried out in 2011 showed an estimated gross resource range of 5 to 8 Tcf, with a gross mean of 7 Tcf. Since 6 Tcf were marked as the threshold for making the LNG plant commercially viable, Cyprus has to conduct more exploratory drills in a second smaller field within Block 12 that could hold at least approximately 2 Tcf.

The Houston based company has meanwhile renewed a proposal for piping gas from the Aphrodite well for the purpose of domestic

electricity generation, at a delivery price of \$9 or \$10 per Million British Thermal Units (MBTU), which is significantly lower than the price offered by Itera during the interim gas tender procedure which had been around \$15.5 per MBTU. Implementation of Noble's proposal could result in a 15-20% decrease in the cost of electricity production. Unless and until the tender procedure with Itera and Vitol is concluded the government cannot endorse Noble's proposal.

The cabinet approved modifications to the article of association of the national oil and gas corporation, the Cyprus National Hydrocarbons Company (CNHC). The Cyprus Hydrocarbons Company, as it will henceforth be called, must submit an operational plan to cabinet every six months. The new entity will represent the state in the latter's ownership share in the mooted LNG plant and will be tasked with the sale of the Republic's share of hydrocarbons.

In a recent study researchers of the Massachusetts Institute of Technology (MIT) used Cyprus as case study to warn small countries to proceed with caution, investing substantial amounts of money in an unpredictable resource like natural gas, after weighting their natural gas development options, economic risks, and the large amount of uncertainty surrounding the changing global gas market.

3. Greek Cypriots

Economic Developments

A Troika² delegation arrived in Cyprus on October 29 for the second review of the island's €10 billion rescue package. It will be assessing the 2014 state budget, the restructuring of the banking sector, progress in the public administration reform and plans for a national health system. Progress in efforts toward the privatization of certain state and semi-state enterprises will be also evaluated. The delegation will stay in Cyprus for 2 weeks.

On October 7, the committee looking into the island's economic collapse presented a lengthy report summarizing the inquiry's findings. The report found former President Demetris Christofias primarily responsible for bringing the country's economy to the brink of bankruptcy and for drawing up state policy in a way that ignored economic indicators. Similarly, technocrats and experts were found responsible for not recommending the curtailing of expenses. The report also claimed President Nicos Anastasiades and his government were ill-prepared for bailout negotiations, although it conceded the President's position was difficult. The committee was comprised of former Supreme Court President, Giorgos Pikis, former Supreme Court judge, Andreas Kramvis and former

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

Ombudswoman and judge, Iliana Nicolaou. Former President Christofias rejected the findings of the report, denying any responsibility and repeatedly blamed the banks for the debacle.

Authorities will launch a criminal investigation into a controversial agreement between the Central Bank Governor Panikos Demetriades and consultant firm Alvares and Marshal to pay a 0.10% or €4.75 million “success fee” on any amount needed to recapitalize the banks including the money generated through the bail-in of account holders. The governor is embroiled in a bitter dispute with President Anastasiades who accuses him of having mismanaged the bailout and requests his removal. Demetriades has repeatedly stated he would not resign, even though he acknowledges that his relations with the government are dysfunctional. Meanwhile, the IMF reiterated that full co-operation between the government and the Central Bank is essential to insure financial stability in Cyprus.

Cyprus’ Central Bank appointed global management consultant Oliver Wyman as adviser for the restructuring of the banking sector as part of the bailout terms.

On October 10 the island’s first post-bailout budget (for 2014) was approved by the cabinet. The government aims for a primary budget deficit of 3.0% which is lower than the level of 4.25% targeted by the troika in the bailout deal. The draft budget for 2014 provides for a 10% or

€626 million cut in net spending compared to 2013. Many measures of the budget which will come into force on January 1, 2014. They include: an additional 3.0% cut from the public payroll, 1% increase in VAT and a rise in social insurance contributions.

A further relaxation of financial restrictions was made on October 25, taking a further step towards undoing currency controls imposed which have been in force since March. Supporting documentation on domestic business transactions exceeding €300,000 are no longer required, unless deemed so by the banking institution. The threshold for business making transactions abroad was raised from €500,000 to €1 million while individuals can now transfer from one bank account to another €15,000 without approval. Moreover, travellers can now take abroad €3,000 from €1,000 initially.

According to data released by the CBC the outflow of deposits in September almost doubled in comparison to August, from €458 million to €924 million. Total deposits in Cyprus are currently €47.465 billion. On a year to year basis deposits have dropped by 33% or €23.2 billion, of which €9.4 is due to the bail-in decision of last March’s Eurogroup. Next to the capital flight from the island also non-performing loans (NPL) pose a significant risk to the banking sector. According to figures published by the Central Bank, non-performing loans in all domestic banking operations including the co-operatives reached €15.4 billion or 20.9% of all loans by the end of 2012. This figures include non-per-

forming loans even if they are covered by collateral. NPLs which are not covered by collateral total €8.6 billion or 15.6% of all loans in commercial banks, those in co-operatives total €1.9 billion or 15.3%.

The Cypriot economy will contract by 8.7% in 2013 and by 3.9% in 2014 according to the IMF's World Economic Outlook. In addition, Fitch Ratings expects Cyprus' GDP to contract by 8.9% in 2013 and further 4.9% in 2014. The rating agency warned that lenders remain vulnerable to funding and liquidity risks despite the completion of the recapitalization and restructuring process of Cypriot Banks. According to Moody's, Cypriot banks and cooperatives could face capital needs that exceed by some €1.5 billion the €2.5 billion of EU support funds earmarked for the banking sector.

According to Eurostat, Cyprus recorded the highest increase in unemployment figures among EU states for September 2013 reaching 17.1% or 76,000 persons compared to 16.9% or 75,000 persons in August and 12.7% or 56,000 in September 2012.

Foreign Policy

During the month of October President Anastasiades completed a two day visit to Kuwait during which the two states signed a number of agreements aiming to strengthen ties including cooperation in fighting terrorism, organized crime, drug trafficking and illegal migration. Agreements were also signed for

cooperation in the areas of tourism, education and health.

On October 18, the cabinet approved the establishment of a support base in Cyprus for the UN-OPCW mission to Syria as well as the provision of facilities for the mission's safety and operations on the island. The Security Council had approved in resolution 2118 the establishment of a joint United Nations and OPCW mission (Organization for the Prohibition of Chemical Weapons) to oversee the destruction of Syria's chemical stockpiles and production facilities. The UN decision to establish a support base in Cyprus upgrades the country's stabilizing role in the Eastern Mediterranean.

4. Turkish Cypriots

During the month of October, political interest in the potential for a new round of peace talks peaked. Statements from President Derviş Eroğlu and Foreign Minister Özdil Nami dominated the news headlines. Meanwhile, in the background the leaders' respective special representatives, Osman Ertuğ and Andreas Mavroyannis (the assigned negotiator for the Greek Cypriot side) worked on drafting a joint statement as a precondition for resuming full-fledged negotiations. However, by the end of the month, divisions remained portending a potential diplomatic crisis prompting more probing by the UN Good Offices. The UN Secretary General's Special Adviser on Cyprus,

Alexander Downer, engaged in shuttle diplomacy to iron out differences.

Despite the gulf in views on some procedural matters, the Turkish side played up the potential for a quick resolution to the decades-old Cyprus problem. Özdil Nami predicted that following agreement at the political level, referenda could be held on both sides of island by March 2014, itself deemed a milestone in that it would mark effectively 50 years since the constitutional order of the island broke down and Turkish Cypriot participation in the government ended. Meanwhile, Nami aligned himself with Eroğlu and Turkey regarding the status of the ghost city of Varosha. Rather than seeing its opening and return to original inhabitants as a confidence building gesture to Greek Cypriots, Nami argued that it was part and parcel to negotiations on the territorial dimension of the comprehensive deal.

Nami visited Ankara on 9 October where he held a joint press meeting with Turkish Foreign Minister Ahmet Davutoğlu. The two expressed their view that negotiations in Cyprus would recommence as early as 4 November.

However, an agreement on a joint statement with the Greek Cypriot side did not materialize in October. A blame game commenced. On 20 October Nami maintained that the Turkish side had accepted the UN's mediated language for a joint statement but that the Greek Cypriot side had rejected it. The problem at arriving at an agreement, according to Nami, was the Greek

Cypriot side's insistence on including overt references from the 2008 joint statement that highlighted a 'single sovereignty and citizenship' for Cyprus, while aiming to further negotiate internal (constituent state) citizenship and residual powers (of constituent states).

Domestically, the new government faced financial problems that carried over from the previous government. The finances of the Turkish Cypriot Nicosia Municipality remained a serious problem. A prominent businessman, Mehmet Çangar, had loaned money - about 12 million Pounds Sterling in 2010 - to the municipality that had subsequently defaulted prompting litigation. The sides tried to negotiate an out of court settlement but had not succeeded in October.

The government also faced demands from all sectors. The month began with farmers holding a demonstration demanding drought subsidy payments. Meanwhile, there were demands to revise the economic program agreed with Turkey by the previous government. On 9 October the Turkish Cypriot Industrial Chamber submitted a report to Prime Minister Özkan Yorgancıoğlu outlining points of contention and policy alternatives regarding productivity and privatizations.

For its part, the government declared its intent to investigate allegedly illegal public sector employment by the previous government. The government also cancelled the import of a controversial water cannon for the police that

was contentious following the Gezi Park events in Istanbul in June. Instead the government provided a budget to transform the vehicle into fire-fighting equipment for the fire brigade.

An ad hoc committee was established within parliament to reform parliamentary procedure, revise the laws on political parties, and electoral laws. More ambitiously plans were made to change articles of the Constitution, led by the efforts of MP Tufan Erhurman, a legal professor.

On a more mundane level, the perennial problem of citizenship led to complaints from groups demanding naturalization. Mainland Turkish immigrant interest groups argued that the government had cancelled applications. The CTP-led government maintained that there was only postponement and promised legislative action and thereafter the processing of pending cases.

Following consultations with labor unions, finance minister Zeren Mungan announced that henceforth new seasonal workers would not be employed by the public sector. The goal was to hire permanent staff based on formal procedures and announced vacancies.

The government faced demands from opposition parties to shorten compulsory military service following similar legislative moves in Ankara.

The month ended with the government sending the 2014 budget proposal to parliament for approval. The budget totalled 3,774,945,000 TL (roughly 1.4 billion euros).

5. FES Cyprus Events

November

Saturday 2. November 2013, 5.30 - 8.30 pm
ENORASIS / FES

Workshop

**ENORASIS' 9TH ANNUAL ENTERTAINING
FRIENDSHIP WEEKEND AND WORKSHOP ON
OUR COMMON FUTURE**

Lordos Beach Hotel, Larnaca
Open to the public



Thursday 14. November 2013, 9 am
BROOKINGS INSTITUTE / PRIO CC / FES

Conference

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

Chateau Status (in the UN Buffer Zone)
Open to the public



Saturday 16. November 2013, 9 am

IKME / BILBAN / FES

Cypriots' Voice Workshop:

**Modus Vivendi 4 A Settlement:
Evolutionary, Comprehensive, Surprise...**

Classic Hotel, Nicosia
Not open to the public



Tuesday 19. November 2013, 7 pm

CCMC / MENOUME EVROPI / FES

Conference

Media Pluralism in Cyprus: Access Restricted?

Cyprus Community Media Centre - CCMC
(in the UN Buffer Zone)
Open to the public



29. -30. November 2013

Friday 3.30-7.35 pm, Saturday 9 am – 3:30 pm

ADHR / CYPRUS ACADEMIC FORUM (CAF)/ FES

Conference

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

UNESCO Amphitheatre, University of Nicosia
Open to the public

December

Monday 2. December 2013, 7pm

UNESCO CHAIR /The Cyprus Center for
Intercultural Studies/University of Nicosia/ FES

Conference

**Multicultural Cyprus:
The Armenian Community**

Cine Studio, University of Nicosia
Open to the Public



Montag 2. December 2013, 4 – 6 pm

POST RI / FES

Book launch

Representation of History and Peace Education

Cyprus Community Media Centre - CCMC
(in the UN Buffer Zone)
Open to the public



Saturday 7. December 2013, 3 - 7 pm

INDEX /PRIO/ FES

Conference

The State we are in

Hilton Park Hotel, Nicosia
Open to the Public



Monday 9. December 2013,
POST RI / KTOS / FES

Workshop

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

KTOS Headquarter, Nicosia
Open to the public



Monday 16. December 2013, 10 am – 3 pm
GAT CYPRUS / PRIO CYPRUS / FES

Conference

Gender & Law: Citizenship Workshop II

Home for Cooperation, Nicosia
(in the UN Buffer Zone)
Open to the public

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