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## 1. Cyprus Problem

October was a month full of tension which became escalated due to Cyprus' Exclusive Economic Zone (EEZ) and the temporary suspension of the negotiations aimed at a solution of the Cyprus Problem. The recent developments were caused by two divergent policies between the respective parties: On the one hand Turkey, citing the rights of the Turkish Cypriots for an equal share in the hydrocarbons prospect, has consistently opposed the unilateral attempt of the Greek Cypriot dominated Republic of Cyprus (RoC) to exploit hydrocarbons off its southern coast. Moreover, Turkey claims some parts of the Greek Cypriot EEZ as part of its own exclusive economic zone. Turkey and the Turkish Cypriots threatened to follow a tit for tat strategy countering any Greek Cypriot move with a corresponding measure. On the other hand the RoC, argued that Turkish Cypriots will proportionately benefit from the hydrocarbons prospect after a solution is achieved, had warned that any challenges within its EEZ will not be accepted as these would trigger a disruption of the negotiations.

With both sides determined to carry through their respective policies an escalation seemed inevitable. On October 3, Turkey issued a marine vessel (Navtex), reserving a sizeable area for seismic surveys which encroaches into Cyprus' EEZ (blocks 1,2,3,8 and 9) from October 20 to December 30. As a response, the Greek Cypriot side withdrew from the negotiations

table on October 7, citing the lack of a conducive environment for negotiations.

The Greek Cypriots aimed at international condemnation and asked for a prevention of Turkey's announced activities by the International Community, which acknowledges the right of the RoC to exploit the hydrocarbons off its coast. Apart from Italy and Greece, who protested to Ankara, these expectations were not fulfilled. An EU annual report issued on October 8 simply called for Turkey to respect Cyprus' sovereignty while the UN called for restraint by both sides. The US reaction was similar to the UN and EU but reiterated that the findings should be equitably shared between the two communities. Russia's response criticized both sides by signalling its objection to unilateral actions and the show of force, a message referring to Cyprus and Turkey respectively. Overall, the reluctance of the International Community to condemn Turkey reflected its desire to avoid further tension at a moment where Turkey's contribution against ISIS threats in Syria and Iraq are crucial in ensuring stability in the region.

At home, the suspension of the talks produced a rare moment of unity between the Greek Cypriot political parties. Opinions varied, however, on the issue of how to proceed after the talks were suspended, DIKO proposed the closure of the checkpoints as a potential measure. On October 9, the House approved a resolution, denouncing Turkey's actions as a

breach of international law. A further reaction resulted in a joint Israeli-Cypriot military exercise with Israeli air fighters performing aerial manoeuvres in Cypriot airspace which according to the defence ministry was planned before the issuance of Turkey's Navtex. Additionally, Greece and the RoC concluded a bilateral agreement bringing the sea area between the two countries under their jurisdiction. Despite being presented as a response for Turkey's actions, the agreement is limited to joint search and rescue operations. And finally, a Russian naval exercise was announced to take place the same day that Turkey intended to implement its Navtex though this exercise had also been scheduled before the crises emerged.

As scheduled, on October 20 the Turkish Barbaros research vessel, accompanied by the Gelibolu warship and two support vessels began its research within the Cypriot EEZ. In response the Greek Cypriots held a two day National Council meeting and announced a series of measures with the objective to inflict diplomatic and political cost to Turkey. Some of these measures included: the RoC vetoing the opening of new chapters in Turkey's EU accession negotiations; the option of filing recourse at the UN Security Council and the possibility of taking legal action against companies involved in the Turkish activities. Greek Cypriot parties DISY, AKEL and EDY also met with Turkish Cypriot parties UBP and CTP in order to issue a joint declaration calling for Turkey to withdraw its ships and for President Nicos Anastasiades to

return to the negotiating table. This was, however, prevented by the objection of the UBP.

Eventually, a European Council meeting held on October 24 called on Turkey to show restraint and to respect the RoC's sovereignty over its territorial sea and its sovereign rights within its EEZ. In a warning towards Turkey's accession prospect, the Council conclusions involved the 2005 Declaration of the European Community and its member states, stating that *'the recognition of all members is a necessary component of the accession process'*. DISY presented the EU's statement as a diplomatic victory, which was deemed welcome but not satisfactory by EDEK, DIKO and the Citizens Alliance.

President Anastasiades affirmed the suspension of Turkey's activities within Cyprus' EEZ a precondition for returning to the negotiating table, while Turkish Cypriot leader Dervis Eroglu, urged the Greek Cypriot side to return to the talks without setting preconditions. Meanwhile, Turkish Prime Minister Ahmet Davutoglu brought about the idea of a two state solution unless Greek Cypriots reconsider the rights of the Turkish Cypriots.

In the midst of this crises the UN Secretary General's Special Advisor, Espen Barth Eide, is expected to visit Ankara, Athens and Nicosia during the first week of November.

,Kudret Ozersay was removed from his duties as Turkish Cypriot negotiator after announcing on

October 3 his intention to run in the 'TRNC'<sup>1</sup> Presidential elections in April 2015. Ozersay was replaced by Ergun Olgun.

On October 15, the ten winners of the Stelios Philanthropic Foundation awards were announced. The ten teams, which were comprised of at least one Greek Cypriot and one Turkish Cypriot, received an amount of €10,000 each. Some of these bi-communal ventures included book publications, fishing, pilot training and monuments restoration. 2014 marked 32 applications, a record since the awards were initiated six years ago. The foundation has given a total of €1.2 million in grants for bi-communal collaboration.

## 2. Hydrocarbons

Despite the challenges in the island's EEZ, the Italian-South Korean consortium of ENI-KOGAS, continued its drilling activities in the Onasagoras field of block 9. The areas reserved in block

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<sup>1</sup> 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).

9 by the Turkish Navtex directly border, but do not overlap the spot where the consortium is operating. The first results from the drillings are expected in December.

On October 20, the Cyprus Hydrocarbons Company (CHC) held talks with the British Egyptian company, BG Egypt, to discuss the possibility of exporting natural gas to the company's infrastructure in Egypt. According to the CHC director Toulia Onoufriou, contacts with BG Egypt will continue and exploration on the technical, economic, legal and geopolitical aspects will set the foundation for the promotion and sale of hydrocarbons within Cyprus' EEZ.

Meanwhile, the construction of an undersea electricity cable, connecting Israel, Cyprus and Greece was announced by the European Commission as one of the projects to be funded by EU member states within the context of increasing Europe's energy security. The amount earmarked for the Hadera (Israel) - Vasilikos (Cyprus) connection is up to €1.3 million.

## 3. Greek Cypriots

### Economic developments

The Bank of Cyprus (BoC), the Central Cooperative Bank (CCB), Hellenic Bank and Russian Commercial Bank (RCB) took part in the asset quality review by the European Central Bank (ECB), also known as the 'stress test', which was conducted

throughout the Eurozone. The tests will determine which lenders will come under the ECB's direct supervision in November by evaluating each bank's balance sheet and estimating any recapitalization needs.

According to the results released on October 26, three Cypriot Banks completed the assessment with a capital surplus, whereas one bank completed the exercise with a manageable shortfall. In particular, the Central Cooperative Bank recorded a surplus of €331 million, while the Bank of Cyprus registered a surplus of €81 million. Russian Commercial Bank recorded a surplus of €112 million and Hellenic registered a capital shortfall of €176 million. Hellenic, however, announced that it had made further mitigating factors amounting to €71 million, thus reducing the overall capital shortfall to €105 million. The bank also announced that it will soon proceed with a capital raise to cover the capital shortfall. The positive performance of the Cypriot banks was characterized by Finance Minister, Harris Georgiadis, as a great achievement.

The test results came against the background of political and economic uncertainty in Cyprus, with the foreclosures bill in limbo, pending the Supreme Court's decision on the four accompanying bills<sup>2</sup> passed by the House and

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<sup>2</sup> From the four bills sent to the Supreme Court, the first allows distressed borrowers with non-performing housing loans of up to €350,000 to apply for court-ordered protection against foreclosure, while the second stipulates that foreclosing properties

vetoed by President Anastasiades in September. The contentious bills, which were proposed by the opposition, limit the reach of the basic foreclosures legislation and prevented the release of the next tranche of €435 million financial assistance from the Troika<sup>3</sup> to Cyprus. The bills were eventually ruled as unconstitutional by the Supreme Court on October 31. The court's decision paved the way for the release of the next tranche but did not prevent a circle of uncertainty to erupt as new disagreements broke out between President Anastasiades and the CBC governor Chrystalla Georkadji.

This concerns the CBC governor's daughter who is a lawyer in the firm representing Andreas Vgenopoulos, the ex-Laiki CEO and Georkadji being accused for removing a wording in her contract pertaining to conflict of interest. In an issued statement, Anastasiades accused Georkadji for lying when she stated that he was aware of the change in her contract. He also accused Georkadji of abusing the trust he had shown her. The rift between Anastasiades and Georkadji created expectations that the latter should resign.

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would relieve small borrowers of any further obligation, even if the property's auctioned value does not cover the outstanding loan. The third relieves guarantors of any obligations after the property is sold, and the fourth links the foreclosures bill with the insolvency framework

<sup>3</sup> The Troika is comprised by the International Monetary Fund (IMF), the European Commission and the European Central Bank (ECB).

On October 24, Standard & Poor's rating agency raised its credit ratings in Cyprus to 'B+' from 'B', reflecting the agency's positive view of the country's economic and budgetary performance. The agency also stressed that a number of risks still remain. Following the positive results from the stress tests, Fitch also upgraded Cyprus to a B-.

Ahead of November's annual general meeting, the BoC new shareholders announced a list of candidates for the bank's new board of directors. Former CEO of Deutsche Bank, Josef Ackermann, has been nominated as chairman of the BoC board of directors. Ackermann would be joined by Arne Berggren, nominated independently by the European Bank for Reconstruction and Development; Maksim Goldman, a director of strategic projects at Renova; John Hourican, BoC CEO; Christakis Patsalides, BoC finance director; Wilbur Ross, chairman of WL Ross & Co; Michael Spanos, a former director of the Central Bank of Cyprus; Vladimir Strzhalkovskiy, vice chairman of the BoC board; Ioannis Zographakis, chairman of the BoC audit committee and Marios Kalochoritis, director of the Bank of Cyprus. Furthermore Christis Hassapis announced that he will be stepping down as BoC chairman.

The 2015 budget was announced on October 17. It earmarks €6.6 billion for spending, a 0.6% increase compared to 2014 and €5.9 billion as revenue, 0.4% less than 2014. The island's GDP is expected to contract less than 3% compared to last year's 5.4%. The finance minister

expressed his optimism that Cyprus will exit the bailout program by 2016.

The European Bank of Reconstruction and Development has expressed its willingness to invest €800 million into the Cypriot economy, mainly in the energy and tourism sectors, privatization of semi-governmental organizations and major projects of more than €10 million each.

According to the Central Bank, the ratio of non-performing loans NPL's in Cyprus rose slightly from July's 46.9% to 47.7% in August. Furthermore, September marked the highest deposit outflows since July 2013. In particular total deposits fell by €850 million reaching €46 billion, compared to a decrease of €328 million in August.

Fuel companies lowered their prices by 12 to 15 cents to reflect the global drop in oil prices.

### **Domestic Developments**

Despite heated reaction sparked by the signing of Dimitris Vasiliou to the Turkish Cypriot football club Degirmenlik in September, a second Greek Cypriot Argiris Christofi joined the Turkish Cypriot club during the month of October.

### **Foreign Policy**

Cyprus is willing to donate ammunition to the Lebanese army to assist its attempts to fight the Islamic State (IS). The UK continued throughout

the month to carry out air strikes on IS positions in Iraq from the British bases in Akrotiri.

The foreign ministers of Cyprus, Greece, and Egypt, Ioannis Kassoulides, Evangelos Venizelos and Sameh Hassan Shoukry respectively, held a meeting in Nicosia on October 29 ahead of a tripartite summit of their countries leaders scheduled for November 8 in Cairo. The ministers discussed cooperation in a number of fields including energy, security and tourism. A joint communiqué issued after the meeting stressed their countries commitment and respect to international law and called on Turkey to terminate its survey operations within Cyprus's EEZ.

#### 4. Turkish Cypriots

The Turkish Cypriot leader Dervis Eroglu sent a letter to the U.N. Secretary-General Ban Ki-moon calling for the re-launching of the negotiations. Eroglu asked Ban to utilize the Good Offices Mission so that the Greek Cypriot side returns without preconditions back to the negotiating table and work on reaching a "fair, sustainable and negotiated solution", saying that negotiations are the only way for reaching reconciliation. Eroglu also pointed out that natural resources should be exploited in a fair manner should Cyprus be reunited.

Following the meeting of the parliamentary platform at the president's office, the leaders of the political parties represented in the parliament have called on the Greek Cypriot leader

and president Nicos Anastasiades to return to the peace negotiations.

#### Economic Developments

According to the ministry of education, the total number of university students enrolled in the Turkish Cypriot universities has reached 73,894 in the academic year 2014-2015. 36,823 of these students are from Turkey; 17,440 from north Cyprus and the remaining 19,631 from other countries. Last year the figure was around 64,000.

As part of a scheme to promote employment of the TRNC citizens in the private sector, the government has spent TL12 million (€4.3 million) since December 2013 to help to create 2,875 new jobs in the private sector, according to Aziz Gurpinar, the Minister of Labor.

Budget figures released by the ministry of finance showed that there was a deficit of TL 276 million (€98.9 million) in the first eight months of the year when only domestic revenues and expenditures were taken into account.

In line with its policy of increasing the depth of the financial markets and efficient regulation of the banking sector's liquidity, for the first time in its history, the TRNC central bank introduced a new financial instrument through which it borrowed TL371.4 million (€133.1 million) from 15 banks.

According to various figures released by the central bank, total deposits in the Turkish Cyp-

riot banking system rose by 2.63% in the first seven months of the year to reach TL 11.1 billion, of which 43.75% is held in foreign currencies. Remarkably, 89.6% of all deposits' terms are less than a year. The total volume of credits, on the other hand, has reached TL 8.25 billion in the first eight months of the year. This represents a 4.83% rise compared to the previous year. As far as non-performing loans are concerned, the central bank data showed that this figure stood at 8.17% by the end of August. Credit card debt accounted for 18.73% of all non-performing loans, while the share of construction and tourism sector related non-performing loans were 17.22% and 13.6% respectively.

### **Domestic Developments**

On October 2, the coalition government made up of the Republican Turkish Party-United Forces (CTP-BG) and Democratic Party-National Forces (DP-UG) has completed its first year in office. Prime Minister Ozkan Yorgancioglu and the Deputy Prime Minister Serdar Denktas briefed reporters on the government's activities over the past year at a press conference. Both leaders denied allegations of disunity in the coalition and argued that they have been working in harmony and would continue to do so. Yorgancioglu said that the coalition government, among other things, passed a series of reforms, laws and bylaws which improved the state's collection of unpaid taxes and revenues

as well as giving low interest loans to small businesses and enterprises.

Turkish Cypriot negotiator Kudret Ozersay has announced his candidacy for the upcoming presidential election, which will be held in April 2015. He will run as an independent. Though he announced his intention to carry out his duty as the negotiator until the official start of the campaign period, Turkish Cypriot leader Dervis Eroglu replaced him with Ergun Olgun.

Olgun earlier served as undersecretary of the president's office (1998-2005) during Rauf Denktas' presidency, and during the negotiations of the UN's Comprehensive Settlement plan for Cyprus in 2004, he served as the coordinator of the Turkish Cypriot technical committees as well as a member of the negotiation team. Olgun also served as the coordinator of the presidential consultative council for the negotiations from June 2010 until his appointment as the negotiator. He has a master's degree in governance from the George Washington University.

In the meantime, the National Unity Party (UBP) has officially announced that it would support president Derviş Eroğlu, its former chairman, in the upcoming presidential election should he decide to run. The decision was made with a unanimous vote of the UBP's parliamentary group, general executive board and party assembly. Eroglu is expected to announce his final decision regarding his candidacy in November. Earlier, the speaker of the parliament Sibel

Siber (CTP-BG) and former Nicosia mayor Mustafa Akinci (independent; TDP's support expected) have announced their candidacy.

Former president and former CTP-BG leader Mehmet Ali Talat stated that the CTP-BG was more important for him than the presidency and restated that he was ready to take an active role in the party administration to overcome the internal disunity that has prevailed. He did not rule out running for the chairmanship of the party.

Evaluating the suspension of the talks, former Turkish Cypriot leader Mehmet Ali Talat stated that the tension will not benefit anyone and will have a negative impact on the peace process, adding however that this situation benefits Eroglu and all those who do not want a solution. Responding to Talat's statements, Eroglu said that it was shameful that Talat was trying to score points and, that in this critical and sensitive period he was ready to do whatever he could to reach an agreement based on the "realities" of Cyprus.

Meanwhile, former Turkish Cypriot negotiator and presidential hopeful, Ozersay said that should the Turkish Cypriot side have directed Turkey towards a milder stance, there would have been no crisis referring to the unilateral suspension of the negotiations by the Greek Cypriot side. Commenting on the same issue, another presidential candidate, Akinci said that the latest developments had once again illustrated how urgent a solution to the Cyprus

problem was, adding that Turkish Cypriots could secure their rights on the natural gas only through negotiations, diplomacy, solution and peace, not by sending warships.

The parliament has rejected the resignation of CTP-BG Kyrenia deputy Abbas Sinay from the parliament. While the 28 deputies of the ruling coalition parties voted against Sinay's resignation, the 12 members of the main opposition UBP abstained. Only three Social Democratic Party (TDP) MPs voted in favour. Sinay had submitted his resignation in September during the summer recess after falling out with his party over various issues.

36 Syrian refugees, who had crossed to the north on October 27, were returned to the south on October 29. The refugees wanted to stay in the north to look for opportunities to go to Turkey. The refugees had been rescued by the authorities of the RoC on September 25 off the coast of Paphos.

### **Foreign Affairs**

A TRNC representative office was opened in Budapest, Hungary. The minister of foreign affairs Ozdil Nami affirmed, "This step will pave the way for the development of the increasing cultural and commercial relations with Hungary. I hope that this will act as an example for [other] European Union member countries as well," Nami stated during the inauguration ceremony.

The Turkish Cypriot ministry of foreign affairs issued a statement criticizing the paragraph on Cyprus in the Council Conclusions, which made a call to respect the sovereign rights of the RoC over its territorial waters and EEZ. This “is an unfortunate statement which is not in line with the realities on the island. The statement overlooks the inherent rights and interests of the Turkish Cypriot people and serves no other purpose than exacerbating the issue, which actually arose following the abrupt and unilateral decision of the Greek Cypriot side to withdraw from the negotiation table”, the statement said.

## 5. FES Cyprus Events

### November

**Saturday 01.11. 2014**

**Sunday 2.11 2014**

ENORASIS / FES

Open discussion, workshop

**Enorasis’ 10<sup>th</sup> Annual Entertaining Friendship weekend and Workshop on our common Future**

Droushia Heights Hotel,  
Akamas , Paphos

Open to the public



**Sunday 16.11. 2014 and Sunday 30.11 2014**

POST RI / FES

workshop

**Structural Dialog Design Process Training**

Home for Cooperation (in the UN buffer zone),  
Nicosia, Cyprus

Not open to the public



**Friday 21.11.2014 12 pm – 7 pm**

**Saturday 22.11 2014 9 am – 4 pm**

Cyprus Association of Political Science / FES

Conference

**First Annual Conference of the Cyprus Association of Political Science**

University of Cyprus, New Campus, Building 7  
Nicosia, Cyprus

Open to the public



**Friday 28.11. 2014 9.30 am – 4 pm**

**Saturday 29.11. 2014 9.30 am – 3 pm**

PCC / FES

Conference

**Annual PRIO Conference on**

**Conflict in Europe – Europe in Conflict**

Chateau Status (in the UN buffer zone),  
Nicosia, Cyprus

Open to the public



**Saturday 22.11.2014 9:30 am to 4 pm**

Eleftheria / FES

Open Space Forum

**The Establishment – What is it and how can we Change it?**

Pallouriotissa Old Market,  
Nicosia, Cyprus

Open to the public



## Dezember

**Thursday 04.12.2014 9 am – 6 pm**

UNIC / FES

Conference

**Participation, Media Representation and the Financial and Political Crises in Cyprus**

UNESCO Amphitheatre, University of Nicosia,  
Nicosia, Cyprus

Open to the public



**Saturday - Sunday 6.-7.12. 2014**

IKME / BILBAN / FES

Conference

**Cypriots' Voice Conference**

Rodon Hotel, Agros, Cyprus

Not open to the public



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