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1. EU Presidency

On the 13th the conciliation procedure between the Council of the EU and the European Parliament on the issue of the 2013 budget ended without a compromise. The main point of divergence was the draft amending budget (no 6) for 2012 for which the Commission proposed an additional € 9 billion in payment appropriations. The EP had set as a precondition an agreement on the EU 2012 budget before discussing the finances for 2013, while the Council advocated a more general approach without separating the two budgets. The Commission thus presented a new budget proposal on the 23rd for € 150.9 billion of commitments appropriations and for payment appropriations of € 137.9 billion.

The Special European Council meeting which took place within the Multiannual Financial Framework for 2014-2020 (MFF) concluded on the 23rd without any agreement. The 27 leaders of the EU member states issued however a joint statement expressing their belief that common ground can be found within the first months of 2013.

On the 22nd of November the European Parliament's Foreign Affairs (AFET) Committee was briefed by Cyprus's Foreign Affairs Minister Kozakou-Marcoullis on the conclusions of the Foreign Affairs Council (FAC) which took place on the 19th. On Gaza, Dr Marcoullis reported to the Members of the European Parliaments (MEPS) that the Foreign Affairs Council dis-

cussed possibilities to contribute to a de-escalation of the violence in Gaza. The EU Member states remained united on the goal of a negotiated two state solution, the reduction of violence and the need to restart substantive talks. The necessity of a common position on the vote of the UN General Assembly resolution on the Palestinian Status was also stressed during the FAC meeting. Furthermore, recent events in the Southern Neighbourhood, including developments in Syria, Lebanon and Egypt were discussed. Other points included the outbreak of violence in the Eastern Democratic Republic of Congo, the post-election situation in Ukraine as well as bilateral relations between the EU and Cuba.

A political agreement was achieved on the Regulation and Directive Draft between the Cyprus Presidency, the European Parliament and the European Commission which introduces additional rules for credit agencies to follow with regards to sovereign debt ratings. The agreed draft ensures that financial institutions do not rely blindly on credit ratings for their investments. The new rules also seek to increase competition, make rating agencies more accountable for the ratings they provide and better regulate the issuance of sovereign debt ratings. The agreed draft still needs official confirmation from the European Parliament and the Council of the European Union.

2. Cyprus Problem

There have not been any substantial developments with regards to the Cyprus Problem as discussions over a possible settlement have been “frozen” with each side blaming the other for the current stalemate in the negotiations. Turkey and the Turkish Cypriots argue that the causes of the breakdown lie in the assumption of the EU Presidency by the south and the decision of the Republic’s current President not to run for a second term. The Greek Cypriots, on the other hand, are preoccupied with the signing of the bailout and February’s presidential elections and accuse the north for its intransigence.

The Special Advisor of the United Nations Secretary General on Cyprus, Alexander Downer, held separate meetings with the leaders of the two communities on the 20th in order to discuss developments surrounding the Cyprus Problem in light of next February’s presidential elections in the south. Downer stressed that the UN would not get involved in the elections, but expressed his interest in the positions of the candidates regarding the Cyprus problem. Nicos Anastasiades, DISY leader and presidential candidate, recently addressed the central committee of DIKO, which is supporting his candidacy. He emphasised that he respects and is bound by the choice of the Greek Cypriot majority who rejected the Anan plan in 2004. Anastasiadis himself had campaigned for a yes vote in 2004, while DIKO had opposed the plan. Anastasiadis has a record of moderate positions

in the Cyprus question that is at odds with DIKO’s traditional hard line stance. In order to ensure the support of DIKO he pledged to take the concessions back which were made by President Christofias in the ongoing talks and not to be the chief negotiator in the talks with the leader of the Turkish Cypriot community.

3. Hydrocarbons

The EU troika team held successive meetings on the 12th with Energy Service Director Solon Kassinis, officials of the Natural Gas Public Company (DEFA), the Electricity Authority (EAC), and the Cyprus Energy Regulatory Authority (CERA). The troika team was briefed on issues regarding the government’s plans to export gas to European and/or Asian markets, on the prospects of collaboration with neighbouring nations, the capacity of an LNG storage terminal to be build on the island and the short term benefit to the economy from signatures bonuses for the awarded offshore licences.

An initial round of talks between the negotiating team appointed by the government and the companies that were awarded offshore gas exploration licences was concluded on the 13th.

In particular, negotiations were held with:

- Representatives of the Total E&P Activities Petrolieres (France)-NOVATEC (Russia), GBP Global Resources BV (Russia) consortium that was selected for Block 9;

- Officials of Total E&P Activities Petrolieres (France) that was picked for Block 11;
- Officials of the ENI (Italy)-KOGAS (South Korea) consortium for Blocks 2 and 3.

The selected companies were asked to come back within two weeks' time with improved proposals regarding financial and technical aspects of their bids. Commerce minister Neoclis Silikiotis stated that the contracts should be signed in early 2013. However, questions were raised after it emerged that the government altered the order of the ranking for the bid of Block 9 by selecting the Franco-Russian consortium despite being ranked fourth in the relevant contest. The government cited reasons of national security for its decision.

Silikiotis also met with the Legal Service to set up a hydrocarbons fund based on the "Norwegian model" in order to manage the revenues from the natural gas resources. €7-8 billions are planned to be invested in the necessary infrastructure including the liquefaction terminal and gas pipes. The rest will be used to complement the state budget, the EU bailout and for future generations. According to Silikiotis, Cyprus's hydrocarbons fund should be an independent body, regulated by the Central Bank with the prospects of coming under the scrutiny of the parliament and the finance minister.

Meanwhile, during an AKEL pre-election meeting in London a row started between Energy Service Director Solon Kassinis and AKEL MP Andros Kyprianou after the latter accused him

of putting the interests of corporations before his country. Kassinis is planning to take legal measures against Kyprianou. He also disagrees on a number of issues with the Commerce minister. This seems to explain Kassinis decision to resign from his post at KRETYK, the state hydrocarbons company. Kassinis, however, cited concerns over the company's role and scope.

4. Greek Cypriots

Economic Developments

On October 22nd, the government submitted its final version of counterproposals regarding the bailout adjustment program put forward by the troika delegation in July. The delayed return of the troika is due to a number of reasons such as stalling by the government, leaking of troika documents and money laundering accusations. The bailout talks were resumed on 9th November. Originally, the 12th of November was seen as the last possible date for an agreement with the Troika in order to allow the EU member states to ratify the decisions on time for urgently needed payments in December. But it was not until the 22nd that after intensive negotiations between the Troika and the government a preliminary agreement was hammered out. The preliminary arrangement was announced after warnings that the economy and the banking sector could collapse if an agreement was further delayed. As a result the rate of deposit withdrawals from Popular Bank

(Laiki) increased dangerously. In addition, Nicosia was going to run out of time as the troika delegation was scheduled to depart on the 21st. It was not sure whether the money would arrive on time to ensure that the government can meet its obligations in January. Payments are not expected before late January or even February. Some economic experts expect, however, that the state will run out of money before that.

Meanwhile, Fitch rating agency further downgraded Cyprus deeper into junk status (from BB+ to BB-) while Moody's had also placed Cyprus on review on the 18th for a possible downgrade citing the slow pace of negotiations with the troika delegation as the main reason.

The troika and the government apparently managed to bridge their differences on major outstanding issues such as pension reform, management of gas revenues, privatization of semi-governmental organizations and the wage indexation. An agreement on the key issue of the bailout amount for the banks has not yet to be agreed, pending an asset quality review of the Cypriot banks by investment company Pimco. However, reports estimate the amount of the Cyprus bailout will add up to around €17 billion: €10 billion for bank's recapitalization, €6 billion for the state's financial obligations and €1.5 billion for the fiscal deficit. Moreover, the bailout terms which include an adjustment program aiming to address short and medium term financial, fiscal and structural problems and would amount to spending cuts of €1.2 billion

(7.25% of GDP) was released by the government on the 30th. The bailout programme will be put for approval during the next Eurogroup meeting scheduled on December 3rd. In brief, some of the measures of the bailout program provide:

- The Social Security Fund (SSF) would not be scrapped, and wage indexation (CoLA) has not been abolished but frozen until 2016, when only 50% of the established rate will be paid to the workers, once a year instead of twice,
- Retirement age will rise to 65 and from 2018 would be linked to life expectancy. Penalties will be introduced for civil servants retiring early, between 63-65 years of age. As from 2013 the pensions of civil servant will be partly taxed,
- The supervision of cooperative banks would be transferred from the Commerce Ministry to the Central Bank,
- 13th salaries will continue to be paid to civil servants,
- A freeze in civil servants recruitment until 2016,
- Allowances will be cut, taxed or reduced by 15%,
- Staggered pay cuts (up to 12.5%) in the public sector and the payment of a temporarily contribution that also affects private sector workers,
- Semi-state Cyprus Telecommunications Authority (CYTA) will not be privatized unless the national debt becomes unsustainable

- Changes in civil service working hours,
- Increased tobacco, alcohol and fuel taxes¹

Other terms provide that the part of proceeds from natural gas would go toward paying off the public debt, with the rest going into a special investment fund and a part will be assigned to energy infrastructure.

The aim of the programme is to restore the soundness of the banking sector by restructuring and resolving financial institutions, strengthening supervision, improving liquidity management, addressing capital shortfalls, correcting excessive government deficit and implementing structural reforms to support competitiveness, sustainable and balanced growth

Meanwhile, the Democratic Labour Federation (DEOK) announced a campaign against the austerity measures included in the bailout while Unions PEO, SEK and PASYDY are planning to hold protests and a work stoppage outside the Parliament and the Finance Ministry.

The Cyprus economy is expected to contract by 3.5% in 2013 while unemployment is expected to reach 12% this year, 13.8% next year and is expected to peak at 14.2% in 2014. With increased unemployment there is also the danger that the unemployment funds will soon be depleted. By the end of the year the Republic of Cyprus is expected to have paid out

more than €100 million in dole benefits. In order to make the payments the Ministry of Labour had to request money from other ministries. After Greece and Spain, Cyprus has had the third highest rise of unemployed in the EU.

With the economic deterioration comes an increase of racism and xenophobia in Cyprus. The roughly 180,000 migrants constitute one-fifth of the Republic's population, out of whom 67,000 are third-country nationals. 12 per cent of the students in public schools are from migrant families. The majority of migrants are employed in the low paid sectors such as the building industry or as domestic helpers. The Interior Minister, Eleni Mavrou, emphasised the need to address this issue urgently in order to avoid the marginalisation of a large section of population.

Whereas the general economic outlook is negative, two sections in the Cyprus economy have had increased revenues. With regards to the tourist industry, there was an increase in arrivals by 4,6% during the first nine months of 2012 compared to the same period in 2011. The largest number of tourists comes from Britain, whereas Russian tourists hold the second position. One third of the total tourist arrivals headed for Paphos.

The shipping industry made a revenue of about €435 million in the first half of 2012, which corresponds to five per cent of Cyprus' GDP and is a two per cent rise from the same period in

¹ The full text of the agreement between the Troika and the Republic of Cyprus can be found at: <https://cy-ne.ws/s7>

2011. After having faced a serious slump between 2008 and 2010, the revenue started to increase from 2011 on. In order to increase the shipping industry's contribution to the GDP the Cyprus Shipping Chamber suggests the creation of the post of a 'Deputy Minister of Shipping', the expansion and promotion of the shipping tax system and the immediate lifting of the Turkish embargo on ships registered in the Republic of Cyprus. An increase of Cyprus-registered ships is expected due to the recent policy changes in taxation and flag benefits by the government. There is a prospect that revenues from Cyprus flag ships can increase in the future.

Domestic Developments

Hundreds of families are currently dependent on food packages given by the church and municipalities. In Nicosia alone the church helps 1397 families while municipalities provide food packages to 230 families in Limassol, 150 families in Larnaca and 500 families in Paphos.

A latest poll ahead of next year's presidential elections indicate Nicos Anastasiades gaining a 20% advantage over AKEL backed candidate Stavros Malas and a 10% edge over independent candidate Giorgos Lillikas. Meanwhile Former trade minister and head of United Democrats Praxoulla Antoniadou, announced on the 16th her decision to run for president. Antoniadou was removed from office in a cabinet reshuffle last March.

5. Turkish Cypriots

Economic Developments

During the month of November parliament deliberated on the budget for the fiscal year 2013 prepared by the Economic, Financial, Budget and Planning Committee. The total budget tallied at 3,421,632,028 TL (approximately 1.5 billion Euros). The Minister of Finance, Ersin Tatar, hailed the budget and dubbed it the "stability and development budget". Tatar maintained that the government projected an average of 4.2% growth from 2013-2015, the duration of a draft economic reform package protocol between TRNC² and Turkey. Opposition parties criticized the budget pointing to austerity measures. Turkish Ambassador to north Cyprus, Halil Ibrahim Akca, commented on the budget pointing out that Turkey would no longer make transfers for telecommunications, electricity, or ports, maintaining that these services must be privatized. Turkey's Deputy Prime Minister, Besir Atalay, who holds the Cyprus affairs portfolio warned

² The Turkish Republic of Northern Cyprus (TRNC) is only recognised by the Republic of Turkey. While for Turkey and the Turkish Cypriots, Derviş Eroğlu 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).

that economic reforms must be implemented without delay. TRNC Prime Minister Irsen Kucuk announced that he would be in Ankara on 4 December to sign the 2013-2015 protocol. The Constitutional Court affirmed the Privatization Law that had been contested by opposition parties and unions. The split decision of the court (3 in favor, 2 justices against) strengthened the government's hand in implementing the unpopular austerity program that entails the privatization of the Ercan/Tymbou airport (following the completion of a tender in September to lease the airport for 25 years) as well as planned for telecommunications and electricity.

Meanwhile the financial crisis at the Turkish Nicosia Municipality (LTB) continued. The government and municipality tried to agree with union members on a rescue package so that arrears in social security deposits could be paid.

The Property Commission, accountable to the ECHR, approved an amicable agreement between a Greek Cypriot property owner and a current user of property entailing compensation of 3,338,600 Pounds Sterling in return for 34 donums of land in Kyrenia. The property is currently part of a hotel resort (Acapulco Hotel). The decision implied that similar cases could be resolved in the future through the Commission thus providing a legal remedy to some disputes regarding 'affected properties' in the north.

The European Union approved a 27.2 million euro financial aid package to north Cyprus.

Domestic Developments

The 15th of November saw commemorations of the 29th anniversary of the TRNC's declaration under trying political and economic circumstances. Among the dignitaries on hand was Turkey's Deputy Prime Minister responsible for Cyprus affairs, Mr. Besir Atalay. Atalay pushed for economic reform in his speech in Nicosia.

The Nicosia District Court issued an injunction on 26 November in favor of Ahmet Kasif who had challenged Prime Minister Irsen Kucuk for party leadership of the ruling National Unity Party (UBP). The UBP party convention had ended controversially with disagreement over the rules to determine the number of delegate votes required to secure party leadership. Kucuk in turn declared his intention to appeal in an attempt to challenge the jurisdiction of the district court regarding matters internal to the political party. Whereas Kucuk's party leadership remained contested, the government was not challenged in parliament.

The struggle for control of government via the UBP's party congress effectively stalled progress on other urgent matters while coinciding with an overall sense of chaos in the capital city. The crisis at the Nicosia Municipality (LTB) required government intervention to provide services to the public, including garbage disposal. The government and the relevant ministries were not prepared to bankroll the bankrupt municipality unless structural reforms were agreed to. On 5 November the Council of Ministers convened and issued a decree compelling striking workers

to provide municipal services or face legal action. On 6 November opposition party members of the municipal council resigned their posts in an attempt to further delegitimize the Mayor, Cemal Bulutogullari. Bulutogullari refused to resign. The remaining LTB council members, all of which hailed from the ruling UBP party, issued a ten point reform package and called on workers to return to their posts. The council members asked for a grace period till 15 December to work on details and seek credit to implement a reform package, as well as to secure the reemployment of up to 194 contractual laborers to the central government. The opposition parties sided with the workers maintaining that the government was wrong to coerce workers and union members through legal consequences. On 8 November municipal workers were joined by the Communal Survival Platform to protest the government's stance.

The ongoing tenders process in the Republic of Cyprus regarding exclusive economic zones (EEZs) and the exploitation of natural gas reserves prompted Turkish responses. Turkish Prime Minister Tayyip Erdogan maintained that there "is no country called Cyprus" in a challenge to the Greek Cypriot led Republic's attempts to sign contracts with conglomerates bidding for rights to explore for and extract natural gas in the Eastern Mediterranean. Turkish Foreign Minister, Ahmet Davutoglu, linked Turkey's infrastructural investments – including a water pipeline and electricity lines from Turkey to northern Cyprus – to the natural gas dispute. The transfer of water and electric-

ity, dubbed the 'life water project', is apparently meant to be potential inducements to broker a deal. However, the United States and the European Union remained committed to the Republic of Cyprus' right to exploit its EEZs independent of Turkey or the Turkish Cypriots.

During the month of November the United Nations Secretary General's Special Adviser on Cyprus, Alexander Downer, arrived in Cyprus to explore the potential for renewed substantive Cyprus problem talks and negotiations following the Greek Cypriot Presidential elections scheduled in 2013. For his part, TRNC President Dervis Eroglu pushed for the adoption of deadlines as a precondition to any new round of negotiations.

The FES-Newsletter team and the FES office in Cyprus wish you all a Merry Christmas and all the best for 2013.



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