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1. Cyprus Problem

February began with the visit of UN Secretary-General's Special Envoy on Cyprus, Jane Holl Lute, as part of her efforts to facilitate discussion between Turkish Cypriot and Greek Cypriot leaders, Mustafa Akinci and Nicos Anastasiades respectively and to come up with terms of reference for a new round of negotiations.

Lute held separate meetings with each leader, twice, before departing on February 4. Following her meetings with the Cypriot leaders, the UN envoy was set to have discussions with the guarantor powers, Greece, Turkey and the UK.

During a meeting held in Ankara on February 5, Greek Prime Minister Alexis Tsipras and Turkish President Tayyip Erdogan agreed that meetings should be scheduled prior to the possible resumption of negotiations to set clear positions and a joint road map. Erdogan noted that for Turkey, the political equality of the Turkish Cypriots was a matter of principle. Tsipras stated that the two countries must agree on a series of preliminary meetings on the security chapter of the Cyprus issue, which involves Greece and Turkey.

On February 26, the two Cypriot leaders held an informal meeting, hosted by the UN Secretary-General's Special Representative in Cyprus, Elizabeth Spehar, at the Chief of Mission's residence in the United Nations Protected Area in Nicosia. According to Spehar, in addition to further clarifying each other's positions on key

matters and identifying outstanding issues to be resolved, the leaders also agreed to implement several important Confidence Building Measures (CBMs) for the benefit of the two communities. Leaders agreed to link the two sides' mobile telephony networks through an outside hub, a CBM which was decided in 2015 but was never implemented. They moreover agreed to exchange some cultural artefacts and documents from one community but under the control of the other as well as additional mine clearance efforts. Lastly, they announced that the integration of the two side's electricity grid had been achieved. Anastasiades also raised his proposal for a decentralised federal government.

On February 26, Greek Foreign Minister, Giorgos Katrougalos met with Lute in Athens. Katrougalos reiterated Greece's commitment to the solution of the Cyprus problem on the basis of the UN resolutions, the abolition of the unacceptable system of guarantees and the withdrawal of all Turkish troops from the island.

On February 13, Greek Cypriot negotiator, Andreas Mavroyiannis met with Turkish Cypriot deputy Prime-Minister Kudret Ozersay as part of the latter's series of contacts dealing with the Cyprus negotiations.¹ Ozersay also met with

¹ The Turkish Republic of Northern Cyprus (TRNC) is only recognised by the Republic of Turkey. While for Turkey and the Turkish Cypriots, Mustafa Akinci serves as President of the TRNC, the international community considers him the communal leader of the Turkish Cypriots. As the government of the

AKEL's Secretary General, Andros Kyprianou. On February 18, Akinci discussed the Cyprus problem with DISY leader, Averof Neophytou, during a dinner in Kyrenia. In attendance were also former chairman of the Cyprus Chamber of Commerce and Industry, Phidias Pilides, and former chairman of the Turkish Cypriot Chamber of Commerce, Fikri Toros.

During a bicomunal discussion organised on February 13 by the Bicomunal Peace Initiative – United Cyprus, the leaders of four political parties, DISY's Averof Neophytou, AKEL's Andros Kyprianou, and the leaders of the Republican Turkish Party and the Communal Democracy Party in the north, Tufan Erhurman and Cemal Ozyigit respectively, expressed their support for a federal Cyprus settlement.

The Jasmine Movement announced that along with Sener Levent, the editor of the Turkish Cypriot daily Afrika, it will nominate five other candidates for European Parliament elections to be held on May 26. Movement spokesperson, Sener Levent said that candidates would be introduced at press conferences in both parts of Cyprus in the coming days. The Jasmine Movement's participation in the election constituted an "important step" towards peace in Cyprus

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).

and making the voice of those who sought an undivided island heard internationally, added Levent, calling on all those eligible to vote to do so on May 26.

The US Congressional Research Service (CRS) concluded in its latest report on Cyprus dated January 2019 that the reunification of Cyprus is proving elusive and that if both sides reject the terms of reference for new talks, which is being facilitated by the UN, negotiations would "come under serious doubt". Regarding the current process, the report notes that Guterres had specifically intended to challenge the sincerity of both sides to return to the negotiations. Guterres also appeared to have adopted Akinci's demand for a results-oriented negotiation, first by making it clear that both sides would have to agree to the terms of reference document that Lute has been assigned to draft and then by not letting the talks become open-ended by not allowing the terms of reference document, once presented, to be renegotiated.

The report is accessible at:

<https://fas.org/sgp/crs/row/R41136.pdf>

2. Hydrocarbons

On February 28, the Republic of Cyprus and US based EXXONMOBIL announced the discovery of a gas find estimated between 5-8 trillion cubic feet (tcf) in the Glafcos 1 well in Block 10 of the Cypriot Exclusive Economic Zone (EEZ). The company announced that an appraisal

drilling in the coming months will be required to better determine the resource potential. This is the third discovery following Noble Energy's discovery of 4 to 5 tcf in 2011 in the Aphrodite field in Block 12. The second, Calypso in Block 6, reportedly holds 3 to 4 tcf but an appraisal well is still pending. EXXONMOBIL has publicly stated its interest in building a liquefied natural gas (LNG) plant on the island should enough quantities be discovered. An LNG plant typically needs reserves of 10 to 15 tcf to be economically viable.

A bill establishing a national investment fund to manage future revenues from hydrocarbons is expected to pass through the House plenum in early March. The government has stated on several occasions that it intends to set up the Cypriot hydrocarbon fund based on the "Norwegian model" considered to be the world's most reliable, transparent and attractive system. The Norwegians in particular invest profits occurring from the exploitation of the country's mineral wealth, which accounts for 25% of the total Gross Domestic Product (GDP), in funding programs that are based on the well-being of their citizens. At the same time, a share of the profits earned by the state is invested for the purpose of securing future generations, once the Norwegian oil and gas reserves are exhausted. The Norwegian model does not allow the raiding of the fund to cover profligate spending. In the case of Cyprus experts believe that the political culture in Cyprus will prevent the model from being applied on the island. They also warn that the Government

should not be allowed to spend the Fund's resources to close debt gaps.

On February 21 Anadolu news agency reported that Turkish Foreign Minister, Mevlut Cavusoglu was quoted as saying in a speech to a business conference that Turkey will soon begin drilling for oil and gas near Cyprus. *"Fatih vessel is currently carrying out drilling activities off Alanya. We will send it to the south of Cyprus. We will also send our second platform to the region and start drilling. The Barbaros Hayrettin Pasa vessel is holding preliminary preparations for this,"* the Turkish Foreign Minister said. *"Countries and companies that have come to the region from faraway places should understand that nothing can be done in the Mediterranean without Turkey, we will not allow it,"* Cavusoglu added. Elsewhere, Turkish President Erdogan said *"We will continue on our way. We will not end our oil exploration efforts just because the Greek Cypriots want us to"* while Energy Minister Fatih Donmez said that state owned Turkish Petroleum (TPAO) would continue seismic explorations in the Mediterranean. In the meantime, the Deepsea Metro-1 drilling vessel purchased recently by TPAO to conduct drilling for natural gas in the Eastern Mediterranean has through the Bosphorus Strait en passed route to Istanbul. The drillship was purchased for US\$262.5 million.

3. Greek Cypriots

Economic Developments

According to the winter interim economic forecast issued by the European Commission, Cyprus' GDP growth is expected to reach 3.8% in 2018 following 4.2% in 2017. According to the forecast, GDP growth is expected to reach 3.3% in 2019 and 2.7% in 2020.

According to a European Commission report, Cyprus faces 'excessive' budgetary imbalances along with Greece and Italy. The report notes that a very high share of non-performing loans burdens the financial sector and high stock of private, public, and external debt hangs on the economy, in a context of still relatively high, even though declining, unemployment and weak potential growth.

On February 20, Cyprus sold its longest ever bond issue via a syndicate of banks². The new €1bn issue saw more than €8bn worth of demand from investors. The yield on five-year Cypriot bonds fell 20 basis points (bps) to 0.68%. Ten-year yields fell 6 bps to 1.91%, while yields on seven-year bonds were down 4 bps on the day. In 2018, S&P Global lifted the country's credit rating to investment grade, paving the way for the European Central Bank to start buy-

² Syndicated bonds are the most common way to sell debt, widely used by governments, companies and other organisations. A group of banks is paid to attract demand from other investors and sometimes underwrite the issue, meaning that, if all of the bond is not sold, the banks must buy what is left.

ing Cypriot bonds under its stimulus scheme. The island has been making steady progress in returning to raise funding on capital markets in recent years.

Domestic Developments

On February 15 ruling party DISY presented the candidates for the May 2019 European parliamentary elections. The six candidates are: MEP Lefteris Christoforou, Limassol MP Eleni Stavrou, DISY parliamentary leader Nicos Torna-ritis, House spokesman Loukas Fourlas, chairman of the youth board of Cyprus (Onek) Panayiotis Sentonas, and DISY's deputy spokesperson, Georgia Constantinou-Panayiotou.

4. Turkish Cypriots

Economic Developments

The State Planning Organisation (SPO) has announced the inflation rate for the month of January as 0.53% and the 12-month inflation rate as 30.9%.

A survey carried out in in Fall 2018 showed that inflation is the most important issue facing the Turkish Cypriot community, according to the latest EU Standard Eurobarometer survey results. 36% of respondents said the rising cost of living had become the country's most important problem, while 28% said the biggest problem was the economic situation in general. Unemployment followed with 26% while 19% cited

the Cyprus problem as the biggest issue. The fifth most important concern was crime. The survey results also revealed that Turkish Cypriots are less optimistic about the future compared to the EU average. 42% of the respondents said that they expected the economic situation to be worse in the next 12 months, while 23% expected it to be better; the EU average was 27% and 21% respectively.

According to a report by the Turkish Cypriot daily Kibris based on the 2018 Activity Report of the Ministry of Economy and Energy, Department of Trade paid 17.4 million TL in export subsidies to ten companies exporting citrus fruit. The total citrus fruit export was worth 84.6 million

According to the data from the Ministry of Tourism, the occupancy rates in 2018 have dropped to 51.3% from 58.5% in 2017. Even though, the hotels with casinos have relatively better occupancy rates (54%) compared to the hotels without a casino (44.5%), they also faced a serious decline in tourism. While the number of guests from Turkey was on the rise, the number of both local and foreign guests decreased.

Relations with Turkey

Turkish Cypriot Prime Minister, Tufan Erhurman visited Ankara to deliver the opening speech of the symposium entitled “the past, present and future of ombudsman in the 6th year” which took place at the Turkish Grand National Assembly. During his visit, Erhurman had meetings

with the Speaker of Turkish parliament Binali Yildirim and Vice-President Fuat Oktay.

Turkish Minister of Interior Suleyman Soylu visited the northern part of Cyprus. During the visit, Soylu and his Turkish Cypriot counterpart Aysegul Baybars signed two protocols on migration, immigration and legal cooperation.

Turkish Cypriot Minister of Agriculture and Natural Resources Erkut Sahali came together with the Turkish Minister of Agriculture and Forestry Bekir Pakdemirli in Izmir.

Domestic Developments

Speaking after the extraordinary session of parliament during which President Akinci briefed members of parliament on the latest developments on the Cyprus problem, the Speaker of Parliament, Teberruken Ulucay said “*The consensus can be observed in all political parties and almost all MPs. The consensus includes the issue of political equality which is indispensable for the Turkish Cypriot side, the need for any new process to be subject to timetables and for any new talks to be result oriented. Parliament will not accept a new open-ended process*”. The leaders of the main opposition UBP, New Birth Party (YDP) and the Deputy Prime Minister Ozersay rushed to rebut the statement. Ozersay said, that the majority of the 50 MPs in parliament as well as 4 political parties with seats in the Assembly believed that the Greek Cypriot side was not ready to share power or wealth with the Turkish Cypriot side, had not come to

terms with the notion of political equality with the Turkish Cypriot side and therefore did not find a federal partnership as a realistic option.

The Quality of Life and Wealth Survey conducted by the Ministry of Finance, showed that the average monthly income in north Cyprus is 3,847TL (€630), with 3,000TL the most common pay. 15% of households are officially 'in poverty', while 25% 'struggled to make ends meet at the end of the month'.

Minister of Public Works and Communications Tolga Atakan said, that his ministry failed to achieve its goals in 2018 due to the economic problems faced in the country. Atakan added that projects to repair roads damaged by heavy rains were temporarily shelved due to lack of funds.

The leader of the main opposition National Unity Party (UBP), Ersin Tatar called on President Akinci to bring to the agenda of the United Nations and other countries interested with the Cyprus problem, a two-state solution. Tatar said, that the meeting between the two leaders revealed that the Greek Cypriot side did not accept the Turkish Cypriot side's demands.

Aydin Denktas, the wife of the late founding president of the TRNC, Rauf Denktas, and the mother of Minister of Finance, Serdar Denktas, has passed away.

Labour Relations and Trade Unions

In an effort to improve the working conditions in the private sector (in sectors such as manufacturing, banking and tourism) for the TRNC citizens, the Ministry of Labour proposed an amendment in an existing regulation, which will provide a salary-support (750 TL or €120) to the employees of workplaces where a collective agreement is signed. The scheme is limited to two years and also includes state subsidies for employers in the form of payment of social security contributions of employees. The proposed amendment follows a scheme already in force for local newspaper employees with collective agreements in force for nine companies and 400 employees. In effect, this is expected to pave the way for unionization in the private sector where unionization is almost non-existent. This was also seen as a way to combat informal economy. The proposal faced backlash from the business community and is currently being revised before submission to the approval of the cabinet.

Inspectors halted work on a high-rise hotel construction site in Nicosia and the directors of contractor and sub-contractor were arrested due to a lack of safety measures after a construction worker fell to his death while installing plasterboard on the sixth floor without a safety belt.

5. FES Cyprus Events

March

--- no events ---



April

Wednesday, 3th April – Thursday, 4th April 2019

FES
conference

Regional East Med Gas Meeting: Cyprus

Chateau Status (in the UN Buffer-Zone)
Nicosia, Cyprus

Not open to the Public



Friday, 5th April – Sunday, 7th April 2019

FES
workshop

Meeting of Journalists

Home for Cooperation (in the UN Buffer-Zone)
Nicosia, Cyprus

Not open to the public

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