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1. Cyprus Problem

In August, no particular developments occurred with regards to the resumption of the negotiations following the appointment of Jane Holl Lute in July as the UN Secretary Representative for Cyprus and her visit to the island.

Lute had separate meetings on July 23 in Cyprus with the Greek Cypriot and Turkish Cypriot leaders, Nicos Anastasiades and Mustafa Akinci respectively. She then met in Ankara on July 30 with Turkish Foreign Minister, Mevlut Cavusoglu and is expected to meet with Greek Foreign Minister, Nicos Kotzias in Athens on September 11. In addition, she is expected to meet in London with British Foreign Secretary, Jeremy Hunt, and Minister for Europe, Sir Alan Duncan, during the first ten days of September. In Brussels she will meet with the High Representative of the European Union for Foreign Affairs and Security Policy Federica Mogherini, on September 13. Lute's mandate is to explore the possibility of a resumption of the peace process.

According to CNA, Nicosia appears open to the possibility of a joint meeting between UN Secretary-General Antonio Guterres, Anastasiades and Akinci after the UN General Assembly, if requested by Guterres. The UN General Assembly will take place in September.

Meanwhile, Turkish President, Recep Tayyip Erdogan was quoted by Turkish Cypriot daily, Star Kibris as stating the following with regards

to the Cyprus peace process: "Taking into consideration that Turkey's efforts on the national cause in Cyprus have been proved until today fruitless due to the Greek Cypriots' stance, a different process will be tried. The Secretary General of the UN will be informed regarding the realities on the island and the efforts to convince him will be continued."

August 14 marked the 44th anniversary of the second phase of the Turkish invasion during which Turkish troops advanced from the island's north to seize 37% of the island.¹ Turkey had first invaded on July 20, 1974, five days after the government of Archbishop Makarios was toppled by a military coup orchestrated by the military junta then ruling Greece.

According to Turkish Cypriot daily, Yeni Duzen for the first time since 2003 the number of persons crossing from the southern part of the island to the north has increased and become more than the crossings from north to south. The article notes that such an increase in the crossings from south to north is attributed to

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 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).

the devaluation of the Turkish lira leading more Greek Cypriots to the north to spend their money. In particular, during the period January-July 2018, 2.684.175 persons visited the north while 2.637.221 person crossed from the north of Cyprus to the south.

2. Hydrocarbons

According to Turkish and Turkish Cypriot media Turkish President, Tayip Erdogan plans to purchase a second drillship for hydrocarbons exploration in the Mediterranean.

On August 6, Cyprus and Egypt reached an agreement for the construction of a pipeline connecting Block 12 of the Aphrodite gas field with Egypt. An interstate agreement is expected to be signed in the fall. In 2017, the two countries had signed a preliminary agreement to transport natural gas from Cyprus to Egypt. This would be liquefied at Egypt's Liquefied Natural Gas (LNG) facilities and re-exported to Europe and other markets. The Aphrodite gas field, discovered in December 2011 by Houston-based Noble Energy, is estimated to hold some 4.5 trillion cubic feet (tcf) of gas.

Meanwhile, on August 21 the cabinet appointed a committee to enter into discussions with the consortium of the Aphrodite gas field over its revenue sharing agreement. The consortium is comprised of Noble Energy, Israel's Delek and Shell. The negotiating team of the committee will be made up by the ministers of energy and

finance and consultants from the hydrocarbons company and the legal service. According to Energy Minister Giorgos Lakkotrypis, the government had been informed at the end of 2017 that the consortium had come to a preliminary agreement with Shell, which operates an LNG terminal in Idku, Egypt, to sell gas to the consortium. Low international prices of oil possibly rendering the project non-viable have led the consortium to request a review of the financial conditions in the existing agreement. Since 2014, the price of a barrel of oil has fallen from over \$100 per barrel to as low as below \$40. Currently, Brent oil is traded at around \$70. According to energy expert Charles Ellinas, there is a strong likelihood that the companies, owning the other licensed blocks of the Cypriot Exclusive Economic Zone (EEZ), will also require similar modifications to the distribution of profits which could cost the government several billions.

3. Greek Cypriots

Economic Developments

According to Eurostat the unemployment rate in Cyprus fell to 7.7% (34.000 people) for the month of July, the lowest since July 2011. In the respective month of 2017 the unemployment rate was 10.7%.

August 31 marked the end of the co-operative sector after more than a century and the partial takeover by the Hellenic Bank. The cooperative

asset management company, Kedipes, will be tasked with handling the billions in non-performing loans (NPL's), which caused the Co-op bank's failure. Kedipes will take over €8.3bn worth of assets of which €6.97bn in NPLs, €0.5bn in 'good' loans, around €620m in immovable property, and cash and shares in other companies worth €230m. Following the Co-op – Hellenic agreement, the latter will be taking over some €9.7bn in deposits, €66m in other obligations, loans worth €4.6bn, including €420m non-performing, Cyprus government bonds totalling €4.08bn, €1.16bn in cash, and other assets worth €25m. Around 100 co-op branches will be shuttered in the following 15 months. The Co-op was jointly supervised by the Central Bank of Cyprus and the European Central Bank's (ECB) Single Supervisory Mechanism (SSM). It was initially bailed out in 2014 by the government with €1.5bn before being provided with an additional €175m the following year. It eventually sold its operations to Hellenic after failing to reduce its NPL's.

On August 31, Standard and Poor's rating agency upgraded Bank of Cyprus' long-term credit rating to B+ from B citing the sale of non-performing exposures (NPEs) amounting to €2.7 bn.

According to the statistical service the government generated a fiscal surplus of €514.7m on a cash basis in the first seven months of the year, compared with €217.2m in 2017.

Domestic Developments

The Green Party-Citizens Cooperation is breaking ranks with centre-right DIKO and socialist EDEK and will not be cooperating with them in the European elections of May 2019. At a meeting of the central committee of the Green Party on August 5, its leader Giorgos Perdikis, stated that both DIKO and EDEK appeared to have set their own course following the defeat of joint candidate, leader of DIKO, Nicolas Papadopoulos, in this year's presidential elections. Perdikis moreover stated that Afrika editor, Sener Levent might be among the candidates proposed for the European MEP elections.

Labour Relations and Trade Unions

The serious dispute that emerged in the public education sector after the government's new measures remains open. Among others' these include the increasing of the teaching time of teachers and leaving many temporary teachers out of work. The education trade unions POED, OELMEK and OLTEK continue to threaten a strike action and demand the resignation of the Minister while they staged a second demonstration much bigger than the one in July. Three days before the scheduled protest they rejected the "final" proposal of the government after a meeting with the President himself who offered them partial monetary compensation and a special early retirement scheme and insisted that the only way forward in the government was to cancel its measures and subsequently have a comprehensive dialogue about what

needs to change in the public education system. The education unions were able to enlist the open support of PEO, ETYK and most of the smaller independent unions and gathered around 15.000 people in their protest outside the presidential palace, which is one of the biggest anti-government assemblies held since the 1980s. All the parliamentary parties, except DISY and ELAM, agreed with the education unions while SEK was more reserved and PASYDY remained silent. There are various initiatives under way attempting to break the deadlock but nothing has succeeded so far as the government insists on its "final" proposal.

The Supreme Court reached a decision, now constituting case law, clarifying that in disputes about wage payments it is the employer's obligation to prove that wages were regularly paid. The judge in his decision, overturning the initial one at the District Court, stated that obligatory employer record keeping lies within this philosophy.

The Minister of Finance called upon Cooperative Cyprus Bank employees to accept the voluntary redundancy compensation scheme "because there will not be another one". ETYK asked the Cooperate Cyprus Bank employees to "ignore the blackmailers" and decide freely and without fear whether they want to accept the voluntary redundancy compensation scheme or not. ETYK also condemned those who say that there are no cleaners in the Hellenic Bank (which will take over) and that ETYK will protect the cleaners in the same way as the other bank

employees. ETYK also has a meeting with the management of the Hellenic Bank and stated that it will not tolerate any discrimination against those Cooperative Cyprus Bank employees that will be transferred to Hellenic Bank. Eventually the target of the 900 voluntary redundancies has been surpassed. The first instalment of the compensation will be delivered in September 2018, the second in June 2019 and the third in December 2019.

Employment in the service sectors in Cyprus was 80% of total employment in 2018 while the EU average stood at 74%.

Temporary employees in the public sector have increased by 10.8% in the last year while the permanent ones have decreased by 1.7%

SEK and PEO protested against the decision made by commercial banks to institute new charges on their shop services as a means to push their customers towards digital banking. The trade unions consider this "theft" of the most vulnerable groups such as pensioners and workers less accustomed to digital banking by banks which take advantage of their monopoly power.

PEO and the Turkish Cypriot left wing trade unions will not have a mass rally this 1st of September as they usually do and will conduct a common press conference instead. They are set to announce several actions and common initiatives for the months ahead. They will also pay tribute to the Greek Cypriots and Turkish Cypri-

ots who fought and died in the World War II in the memorial statue outside PASYDY building.

4. Turkish Cypriots

Economic Developments

In August, Turkish Lira (TL) has lost around 30% of its value against Euro. According to the exchange rates announced by the central bank, on August 1, 1 Euro was worth 5.76 TL; on August 31, 1 euro was worth 7.49 TL. On August 10, the worst day of the crisis, TL plummeted almost 20%. As a result, banks and exchange bureaus briefly pulled down the shutters on trading TL amid panic and tension.

To reassure the public, the Chairman of the Turkish Cypriot Central Bank, Rifat Gunay said that necessary steps were being taken to minimize the impact of the fall in the value of the Turkish Lira on the public. Speaking on the public broadcaster BRT, Gunay said that the measures taken by the Central Bank since 2001 had contributed to the establishment of a strong banking sector in the country. He said that the banks operating in the country had enough liquidity and added that the Central Bank was prepared to step in should the need arise.

State Planning Organization (DPO) announced the July inflation as 2.26%. This means consumer price index has increased by 14.64% in the

first 7 months of the year and by 20.3% in the year to August 2018.

On August 28, the government announced a series of measures to offset the consequences of the fall in the value of the TL against foreign currencies. The package includes levying an additional 20% tax on casinos and bet offices, and allocating 18 million TL to the General Agriculture Insurance Fund to allow the Ministry of Agriculture to make drought payments to farmers. The government also decided to pay in September a one off extra 1.000 TL to those who receive welfare benefits. The package also includes lowering VAT for restaurants, white goods and cleaning supplies. The government also decided to fix the exchange rate for rents paid in foreign currency for a period of 6 months. The exchange rates for properties leased out by the government have been fixed at 6.3TL for Pounds Sterling, 5.6 for Euros and 4.75 for US Dollars.

According to the report of Turkish Cypriot weekly Cyprus Today, an outstanding number of Greek Cypriots are shopping in the north to take advantage of the low rate of the Turkish lira. Thousands of shoppers from across the border are mainly targeting supermarkets and clothes shops, said the chairman of Chamber of Commerce Turgay Deniz. "Although there are no official statistics at the moment, we have observed very long queues at the Kermia/Agios Dometios crossing point, caused by an influx of Greek Cypriots coming to the north". Deniz added that in return, Turkish Cypriots "are look-

ing for jobs in the south because the minimum wage there is €150-200 a week". Currently, minimum wage in the north is around €300 a month (please see the Labour Relations and Trade Unions section).

Reportedly, power cuts and strikes are likely due to a deepening crisis at the electricity authority Kib-Tek. The head of the electricity authority warned that price hikes would be "inevitable" if the value of TL continued to plummet. The rise in the exchange rates has already led to a rise in fuel prices. The price of fuel has gone up between 0.50 to 0.56 TL. The price of 95 Octane petrol has gone up to 4.97TL (€0.67)/per litre, and the price of 98 Octane petrol has gone up to 5.16TL (€0.70) /per litre. Even after the price hikes, the fuel prices in the north are significantly lower than the south attracting more and more motorists from the south to the gas stations in the north.

Turkish Cypriot leader, Akinci also drew attention to how people were being affected by the fall in the value of the Turkish Lira. "We go to bed at night and we wake up in the morning to see that the money in our pockets has melted away. Inflation continues to go up and those who are paying loans in foreign currency are experiencing serious difficulties" the president said. "We do not have to look far to see what difficult times can bring. All we need to do is to look at what happened in south Cyprus and Greece a couple of years ago. Both managed to get back on their feet mainly through cuts in public expenditures," he added. Akinci also

pointed out that reform was needed in the public sector and corruption and money laundering must be stamped out.

Relations with Turkey

Relations between the TRNC and Turkey remain problem-free and a delay in arranging an inter-governmental meeting to discuss the rapid devaluation of TL was due to a busy schedule in Ankara according to Finance Minister, Denktas during the second week of August. Denktas was responding to claims from Rebirth Party (YDP) chairman and Famagusta MP Erhan Arikli that the Turkish government was delaying a meeting to discuss the TL crisis because it was displeased that the Turkish Cypriot side had not fully implemented the 2016-2018 economic protocol between the two countries. At the end of the month, responding to a similar question, Prime Minister Tufan Erhurman said that he had spoken with the Turkish President Erdogan on the phone during the Bayram (Eid al-Adha or Festival of Sacrifice) holiday and that rumours that he had not been able to speak with Erdogan for the past three weeks did not reflect the truth. "Everyone knows how busy Mr. Erdogan is. I have been speaking with the Vice-President every couple of days. We agreed with Mr. Erdogan during our phone conversation of meeting up in the coming days" he said.

The Speaker of the Grand National Assembly of Turkey, Binali Yildirim visited the northern part of the island where he met with the president, speaker of the parliament and prime minister.

Pointing out that he had conducted his first visit abroad to the TRNC as Parliamentary Speaker in line with an established tradition, Yildirim pointed out that Turkey was currently under attack economically but that necessary measures were being taken. Yildirim said that the TRNC economy too was experiencing the impact of the latest developments. “We shall however overcome this situation together” he said.

The Turkish Cypriot Minister of Public Works and Communication Tolga Atakan and the Minister of Agriculture and Natural Resources Erkut Sahali made separate trips to Ankara in order to meet with their Turkish counterparts.

A group of Turkish citizens wanted by Turkey on charges of being members of the Fethullah Terrorist Organization (Feto) which in the eyes of the Turkish government was behind the failed coup in 2016, were extradited after they were caught attempting to sail to the Greek island of Rhodes from Kyrenia. The 19 men and 9 women were arrested by Turkish Cypriot police after receiving a tip-off.

Domestic Developments

The main opposition National Unity Party (UBP)’s ordinary congress will take place on 27th and 28th October.

The Ministry of Education introduced changes in syllabus with a view to “strengthening the teaching of ecology and the environment, philosophy, and Greek as a second foreign lan-

guage” in secondary schools and colleges. Furthermore, religion has become a non-compulsory lesson. The move was criticized by the UBP secretary general Dursun Oguz, who called on Education Minister Cemal Ozyigit to “give up” his “anti-faith, separatist attitudes”.

The Turkish Cypriot legal system is creaking under the pressure of insufficient financial sources, outdated regulations and a shortage of skilled staff, according to Hasan Esendagli, the chairperson of the TRNC Bar Association. Esendagli slammed the current set-up for failing to select and appoint lawyers, prosecutors and judges on merit, while also bemoaning the standard of university education. “In order for the courts to render services on a contemporary level, very serious investments need to be made” Esendagli said in an interview with Cyprus Today. “Without providing infrastructure, equipment and physical facilities, it is unrealistic to expect modern services,” he concluded.

Labour Relations and Trade Unions

On August 5, the new gross minimum wage has been set as 2.620 Turkish Liras. Accordingly, the lowest net salary as of the first day of September will be 2.279 Turkish Liras (€307). Chairperson of Turk-Sen, one of the three trade union federations, said the 255TL raise in the minimum wage, left the poorest workers below the starvation line after a 40% drop in the purchasing power due to the TL crisis, and it was impos-

sible for a family of four to live a decent life on take-home pay of 2.279TL.

As a response to growing criticisms from the public, the Council of Ministers decided to make members of parliament exempt from the latest cost of living adjustment (Cola) of 12.11% for public servants. The amount saved will be distributed among the lowest paid 1.453 civil servants with more than seven years' service, who would get an extra 45-60TL for the rest of this year.

As part of the package of measures to tackle the economic crisis, the government decided to cut back on overtime payments in the public sector until the end of the year. This would mean public sector employees would not receive higher hourly rates for extra hours worked; but rather would be paid a flat rate of 22TL gross per hour. In response, the Union of Air Traffic Controllers stopped overtime work bringing flights to and from Ercan (Tymbou) Airport to a halt. As a result, thousands of passengers were stranded at Ercan Airport. The strike was later suspended for a period of two days. In a similar vein, customs officers and health personnel refused to work beyond their contractual hours leaving ships waiting at sea and non-urgent hospital services shut down. Stating that they had failed to reach an agreement with trade unions on the matter, Erhurman said that there would be no going back from the statutory decree to cut down on overtime payments. Eventually, the government manoeuvred back and unions and government reached a compromise deal that

will see overtime payments reinstated – but with a temporary 15% reduction.

5. FES Cyprus Events

September

--- no events ---



October

Wednesday, 10. October 2018, 6.45 pm

IKME / BILBAN / FES

Cypriots' Voice Symposium

Agios Georgios Tavern
Nicosia, Cyprus

Not open to the Public



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