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## 1. EU Presidency

On the 31<sup>st</sup> of December, Cyprus completed its six-month rotating Presidency of the Council of the EU. The official priorities set by the Cyprus Presidency included the promotion of a better Europe, which was its main motto, by enhancing social cohesion, solidarity and fiscal consolidation as well as supporting employment and the creation of jobs. The actual achievements of the Cyprus presidency were less ambitious but by and large Cyprus can look back on a reasonably successful presidency. The powers of the EU presidency should not be overrated anyway, given that the role of a presidency is mainly that of a facilitator and host with limited means to influence decision-making. This applies even more to a small country like Cyprus. However, some of the main objectives of the Cyprus EU Presidency were met, some during the last month of its term. As of January 1<sup>st</sup>, Ireland will assume the Presidency of the Council of the EU.

On December 11<sup>th</sup>, after a negotiation process of over 30 years, an agreement was finally reached between the Presidency and the Parliament for the Unitary Patent Package. The package includes: The Unified Patent Protection Regulation, the Translations Regulation and the Unified Patent Protection Court Agreement. A patent law of uniform applicability will halt the occurrence of multiple court cases and will prevent the existence of contradictory court rulings concerning the same patents in different member states. The conclusion of the European Patent

Regulation is attributed to the Cyprus Presidency and will remain one of its biggest achievements.

Furthermore, on December 14<sup>th</sup>, an agreement was reached in the European Council on setting up the Single Supervisory Mechanism (SSM) for the oversight of credit institutions, bringing the EU a step closer to the establishment of an Economic/Monetary Union. The SSM is a necessary precondition for the European Stability Mechanism in order to contribute directly to recapitalisation of banks.

In general progress was made in relation to the Common European Asylum System and Schengen governance as a result of which an institutional dispute between the Parliament and the Council was settled. Nevertheless, the goal of establishing a Common European Asylum System by the end of the year was not achieved.

One of the strategic initiatives of the Cyprus Presidency which was to reenergize the EU Integrated Maritime Policy, was facilitated through the adoption of the Limassol Declaration on a marine and maritime agenda. Furthermore, the completion of legislative work on key actions of the Single Market Act, such as venture capital and social entrepreneurship funds, trans-European networks on energy can also be accounted amidst the contributions of the Cypriot Presidency.

The most ambitious and potentially most significant agreement of the EU presidency could not be sealed: the negotiations on the Multiannual Financial Framework which covers the EU

budget for the next 7 years could be moved forward during the last six months and progress was made to such a degree that an agreement seems to be within reach during the Irish presidency. However, a compromise between the Commission and the Parliament is not in sight, yet.

Probably the biggest untold success of the Cyprus Presidency is the fact that there were no major crises since Turkey had frozen its relations with the EU in protest against the EU presidency of the Republic of Cyprus. Turkey, an EU accession candidate, and the Turkish Cypriots do not consider the exclusively Greek Cypriot government of the Republic of Cyprus as legitimate, a view that is not shared by the rest of the international community. In the end all sides behaved responsibly, the Greek Cypriots kept the Cyprus problem largely out of the presidency (as they had announced) and put no additional pressure on Turkey for its boycott policies. Turkey did not turn the freezing of its contacts into a major issue (nor did the EU) and kept a good working relationship on lower levels with the union.

## 2. Cyprus Problem

The negotiations with the Troika regarding budget revisions will most likely affect assistance and benefits offered to the Turkish Cypriots by the Republic of Cyprus. The issue of the benefits for Turkish Cypriots is repeatedly brought up in the media. They are either voiced as a nationalistic expression of general disagreement, or in

the form of criticism of the costs they cause given that most Turkish Cypriots are not paying taxes in the Republic, while, at a time of economic crises, government allowances for various groups within the population are cut.

On the 13<sup>th</sup>, opposition parties DISY and DIKO submitted a draft legislation that would end free health care for Turkish Cypriots and allowances paid to asylum seekers in order to save €50 million per year. Providing free healthcare to Turkish Cypriots was part of a series of measures taken by the Papadopoulos administration after the opening of the crossing points in 2003.

A recent research conducted by 'Cyprus 2015', a project which started under the auspices of the UN and the European Commission in 2009, shows that both Greek Cypriots and Turkish Cypriots are becoming more reluctant to vote in favour of a comprehensive solution to the Cyprus Problem in the form currently discussed in the negotiations. A total of 51% of the interviewed Greek Cypriots responded that they would vote negatively in a future referendum while only 18% responded positively. Similarly, 42% of the interviewed Turkish Cypriots responded negatively. Interestingly, women and younger people among Greek Cypriots are most likely to vote "no" in a referendum, while among Turkish Cypriots, age and gender are not significant factors. Furthermore, the research illustrates that on both sides people are influenced by their parties' position, while a high percentage on both sides (78-80 %) stressed that they would like a more meaningful role of civil society

in the peace process. 1000 people were interviewed, 500 from each side.

As a response to the proposals made by presidential candidate and DISY leader Nicos Anastasiades for the enlargement of the negotiation process including Turkey and the EU and a settlement under a loose federation, President Christofias recalled the UN resolutions and high level agreements and reaffirmed that such proposals would only harm the discussions over the Cyprus Problem. Statements made by Turkey's Minister for European Union Affairs, Egemen Bagis, for promoting a multilateral conference including Greece and Turkey and the two communities, sparked off a joint reaction from the government and opposition parties. However, this reaction soon developed into a row between the Greek Cypriot parties, blaming each other for providing Turkey with the chance to push forward a four-party conference. Bagis referred to an alleged proposal made by Alexander Downer, UN special advisor on Cyprus, to have Turkish Cypriot leader, Dervis Eroglu meet with the Greek prime minister, Antonis Samaras and the next Cypriot President meet with Turkish prime minister, Tayip Erdogan. Bagis described Downer's proposal as incomplete and promoted a four-party conference.

### 3. Hydrocarbons

In late October the government announced its decision to launch negotiations to award licences for blocks 2 and 3 with the consortia ENI-KOGAS (Italy and South Korea) block 9 with Total-Novatec (France and Russia) and block 10 with Total alone. During November, negotiations were held between the government's negotiating team and these companies regarding financial and technical aspects of their bids with the aim of concluding signatory bonuses by 2013 in order to fill the nearly empty state coffers.

However, negotiations with the Total-Novatec consortium over exploration rights in block 9 were abandoned due to contradicting assessments of gas reserves estimations. In general, the higher the estimate of reserves in a prospect, the greater the government's share in a production sharing contract. But the estimate of the French-Russian consortium according to Commerce Minister Neoclis Silikiotis was lower than the government's, which would have meant a smaller cut for the Republic. Although the Total-Novatec consortium was initially picked, despite being ranked fourth, the state has gone back to the bidder who obtained the highest score in the first place, notably the Italian-South Korean joint venture ENI-KOGAS. Negotiations with Total will continue over block 10.

The Parliament unanimously passed a bill on the establishment and control of the state hydrocarbons company, KRETYK. It stipulates that the company's budget must be submitted to Parlia-

ment but would not require approval. The company will be controlled by the Republic's Auditor General and the House will have the right to approve the appointment of board members. KRETYK will be a private company in which the state will own the majority capital. It will engage in the production sharing contract with Noble Energy with regards to the extraction and exploitation of natural gas from block 12 of the Cypriot Exclusive Economic Zone and in consultations with prospective investors for the construction of the Liquefied Natural Gas (LNG) terminal in Cyprus.

During the 2<sup>nd</sup> Cyprus Energy Forum, which took place in Nicosia, it was made clear that a pipeline transferring natural gas from Cyprus to Greece is commercially not viable, as the cost of constructing such a pipeline is prohibitive. In addition, the pipeline option would require long-term supply contracts with the price formula linked to the price of oil and would also limit export markets. By contrast, trading LNG by ship is more flexible since the gas could be exported to a variety of markets like Europe and Asia and would yield more competitive prices.

A land based LNG project is the best option for Cyprus, the forum pointed out. According to the head of the Energy Service Solon Kassinis, authorities are planning to allocate land to host an LNG facility with up to 3 trains, with a total capacity of up to 15 million tonnes a year. A typical LNG train equipped with liquefaction and purification facilities, has a capacity of about 5 million tonnes. Cypriot authorities have been

talking with their Israeli counterparts about the possibility of a joint Cypriot-Israeli LNG plant which would export gas from Cypriot reserves and Israel's Leviathan field.

## 4. Greek Cypriots

### Economic developments

On December 4<sup>th</sup> President Christofias addressed the public through a pre-recorded televised speech, calling for unity and responsible action. Christofias confirmed there is no going back on the bailout deal and its 'painful' content. A few days later, faced with the dilemma of austerity or bankruptcy a raft of austerity measures included in the provisional bailout agreement, were approved by the parliament, which include wage cuts in the public sector, freeze in benefits and cost of living allowance (CoLA) as well as fuel and taxation hikes. During demonstrations against the austerity measures stones and eggs were thrown at the parliament building.

Last month Cyprus reached a preliminary deal with the European Commission, the European Central Bank and the International Monetary Fund to get up to € 17.5 billion in aid, an amount almost equivalent to the annual output of the island's economy. The bulk of that sum, informally estimated up to 10 billion, would go towards the recapitalization of Cypriot Banks, heavily hit by their exposure to the Greek sovereign debt. The government is still awaiting the

findings of a due diligence report by the investment company Pimco that will determine the actual size of the bailout for the banks. A consultancy firm selected to verify the due diligence report is expected to be announced in the following weeks.

A preliminary report delivered by Pimco, best known as the world's biggest bond trader, did not reveal a figure with the exact amount required for the banks' recapitalization. In the event that the national debt reaches 120 % of GDP it will be deemed 'unsustainable' according to IMF standards and Cyprus will not be able to meet interest payments on the loan. In such a case lenders will have to look at additional measures to achieve a budget surplus and implement broad privatizations of semi-governmental organisations such as the telecommunications company CYTA.

With regards to this issue, German newspaper Süddeutsche Zeitung claimed that the IMF supported a haircut of the government debt on the grounds that Cyprus would be unable to pay the interest on the loan even after the memorandum provisions were implemented. The IMF is allegedly seeking a haircut of Cyprus's debt in order to make it sustainable before agreeing to participate in a bailout. The article also reported that Germany and the Netherlands will not even contemplate a bailout for Cyprus without the IMF's contribution.

However, President Christofias ruled out the possibility of a haircut on the Cyprus debt. A

debt haircut will be disastrous for Cyprus by increasing the amounts local banks require for their recapitalization, since they hold huge amounts of state bonds. Eyes are now on Pimco's final assessment, which will determine the sustainability of Cyprus' debt and the final amount needed for the banks recapitalization. Pimco's estimations will be released in mid-January, a week before the Eurogroup will meet to discuss the Cyprus rescue plan on January 21<sup>st</sup>.

The financial needs of the state are covered until February as three semi-governmental organisations, Cyprus Telecommunications Authority (Cyta), Electricity Authority of Cyprus (EAC) and the ports authority, have agreed to provide the state with a total of €250 million for wage and pension payments. The decision was met with workers' intense reaction and protests since the money was partly taken from the pension funds. Without the cash the government would have defaulted.

On the 19<sup>th</sup>, the parliament voted through the 2013 budget, incorporating the terms agreed between the government and the troika with 51 votes in favour and 2 against (Green's Perdakis and EVROKO'S Koutsou). The austerity geared budget will find the state spend €9.5 billion and earn €7.6 billion in revenue. State's debt in 2013 is expected to reach 92% of GDP which is equivalent to €16 billion. GDP for 2013 is estimated at €17.5 billion in comparison to €17.9 in 2012. State debt for 2012 was set to be 85.3% of GDP, approximately €15.3 billion.

The Statistical Service of Cyprus announced the unemployment rate as 12.1% during the 3<sup>rd</sup> quarter of 2012 or 39.522 unemployed by the end of November. Credit agency Standard & Poor's further downgraded Cyprus' long- and short-term sovereign credit rating by two notches, citing intensified financial pressures and delays in the agreement on a financial assistance package. The spending power of Cypriots is now below the average of other Europeans according to the EU statistical office, Eurostat.

### **Domestic developments**

Orphanides Supermarkets, one of the biggest supermarket chains in Cyprus, announced that it is going into receivership. Orphanides owes €85 million to suppliers and 10 to other creditors and posted a loss of €17.7 million for the first three quarters of the year. A minority of large contractors have stopped supplying the chain. A draft plan drawn up by the company's external auditors KPMG was presented to the chain's suppliers and representatives of Bank of Cyprus in order to keep the company operating for one to two more months, by which time it should become apparent whether an 'administrative restructuring' can keep the company afloat. The plan gave priority to repaying suppliers, the payment of salaries and electricity bills and other essential services.

On 28<sup>th</sup> December the insurers and reinsurers of the Vassilikos power plant completed their payment which totals €132.5m after the plant was destroyed during an explosion at Mari naval

base in July 2011. Out of this sum the Electricity Authority of Cyprus (EAC) received €102.5m in addition to the €30m which were already paid in order to reconstruct the power plant. This is the result of a preliminary agreement between the government and EAC for an out of court settlement. The government agreed to pay the insurers €99m as compensation, recognising its responsibility for the explosion. However, out of the €102.5m received by EAC, the electricity authority agreed to pass €72.5m to the state in addition to the €100m the government will borrow from the EAC's pension fund in order to cover the state's pressing financial needs.

## **5. Turkish Cypriots**

### **Economic Developments**

Deliberations on the budget for fiscal year 2013 that commenced in November were completed in December. The overall budget was approved through majority vote in Parliament on 18 December, totalling 3,443,330,348 YTL (approximately 1.5 billion euro). The budget passed despite an unfolding political crisis within Prime Minister Kucuk's party, the National Unity Party (UBP).

Prior to the approval of budget Prime Minister Kucuk travelled to Ankara to sign the 2013-2015 Economic Program on behalf of the TRNC<sup>1</sup>. He

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<sup>1</sup> The Turkish Republic of Northern Cyprus (TRNC) is only recognised by the Republic of Turkey. While for

was accompanied by a number of cabinet members including ministers of finance, economics, public works, and social security. The program included a Financial Cooperation Protocol outlining 3 billion YTL of contributions to be made by the Republic of Turkey in the form of loans and grants. The Republic of Turkey was represented by Deputy Prime Minister in Charge of Cyprus Affairs, Besir Atalay. At the signing ceremony both Kucuk and Atalay went to lengths to emphasize that the documents were largely drafted in Cyprus by Turkish Cypriot authorities entailing inputs from stakeholders and subsequently modified with Turkey's inputs. Against this the details of the program had been kept secret until the ceremony. Turkish Cypriot opposition parties and various commentators insisted that the program and its various provisions envisioning austerity and privatization was Ankara's imposition.

After a couple months of negotiations, a contract was signed on 11 December between the Minister of Public Works and Communications, Hamza Ersan Saner, and the consortium headed

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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).

by Tasyapi Construction Company that had won a tender on 27 September to run Ercan Airport. Opposition parties maintained that the one off lease deal would only suffice to pay public sector salaries for the end of 2012 but that long term revenue would be sacrificed.

Investments in infrastructure continued, including projects financed by the European Union. The Guzelyurt (Morphou) Municipality Waste Water Plant entered into service on 12 December, costing 4 million euro. Turkish Cypriot authorities and EU representatives attended a public ceremony.

Meanwhile Turkey contributed to the development of the 'e-state' including the production of 'e-passports' with embedded chips for enhanced security. The new passports were to be introduced in January 2013. The project was budgeted at roughly 90 million YTL.

The crisis at the Nicosia Municipality (LTB) continued. Despite promises to conclude a restructuring blueprint and securing financing from Vakif Bank of Turkey, the month concluded without any clarity on the future of the municipality or the fate of employees.

Against this, the Turkish side played up Turkey's ability to provide credit to the Republic of Cyprus (RoC). Turkish Cypriot authorities and representatives of Turkey suggested this repeatedly during the month of December. Not very plausible efforts were made to link the supply of electricity and water via pipelines from Turkey to the financial crisis faced by the RoC. Turkish

Minister for EU Affairs, Egemen Bagis reiterated on a couple of occasions that credit or financial assistance would be contingent on Greek Cypriots applying to Turkish Cypriot authorities. The public proviso made it unlikely that the sides could actually engage in proxy negotiations.

The Turkish Cypriot Immovable Property Commission (IPC), accountable to the ECHR and designed to provide a local remedy to affected properties due to the division of the island, revealed that a total of £94,327,000 had been paid in compensation to GC applicants as of 18 December 2012. Back in November the Commission endorsed an amicable agreement between a Greek Cypriot property owner and a current user of property entailing compensation of 3,338,600 Pounds Sterling.

### **Domestic Developments**

The transfer of politicians to the ruling National Unity Party (UBP) on the 31<sup>st</sup> of December was a political bombshell. Billed by proponents including Prime Minister Kucuk as the 'Greater UBP' project, it proved controversial both within UBP and as viewed by the wider public. Splinter parties Democracy and Trust Party (DGP) and Freedom and Reform Party (ORP) rejoined UBP. ORP leader, Turgay Avci, was once General Secretary at UBP before defecting to establish ORP in 2006. ORP then joined the leftist Republican Turkish Party (CTP) as the junior partner in a coalition government that failed to secure reelection in the 2009 parliamentary elections. The DGP leader, Tahsin Ertugruloglu, led

UBP from 2006 to 2008 but eventually left the party due to differences with rival Dervish Eroglu. Eroglu wrested control of the party from Ertugruloglu in 2008. Ertugruloglu ran as an independent candidate for TRNC president in 2010, losing to the UBP candidate Eroglu in a multiple candidate field. Ertugruloglu established DGP in 2011.

The transfer was clearly intended to affect the outcome of a power struggle within UBP. Avci had been indicating his desire to join a 'greater UBP' in previous weeks and months. Resistance to the move came from within the UBP.

The Nicosia District Court issued an injunction on 26 November in favour of Ahmet Kasif who had challenged Prime Minister Irsen Kucuk for party leadership of the ruling National Unity Party (UBP). The UBP party convention (or general congress) had ended controversially with disagreement over the rules to determine the number of delegate votes required to secure party leadership. Kucuk appealed the injunction but the presiding judge ruled in favor of the original injunction. Moreover the judge announced that a final verdict would be issued on 3 January 2013. It was widely anticipated that the judge would call for a repeat of delegate voting at the party convention.

Internationally Turkey and Turkish Cypriot authorities attempted to deter the finalization of tenders and contracts for natural gas exploration in RoC's exclusive economic zones (EEZs). The Turkish side maintained that the Turkish

Petroleum Corporation (TPAO) had rights in TRNC territorial waters overlapping with the RoC's EEZs.

Meanwhile, as the United Nations Good Offices probed the sides as well as Greece and Turkey on the modalities of a renewed round of substantive negotiations to solve the Cyprus Problem, the Turkish side argued for a timeline as a prerequisite.

Final census figures from the 2011 census were announced on 18 December. The State Planning Office declared a total population of 294,396.

## 6. FES Cyprus Events

The Cyprus Center for Intercultural Studies / Friedrich Ebert Stiftung (FES) / Cyprus Academic Forum (CAF) / UNESCO Chair on Cultural Diversity and Intercultural Dialogue for a Culture for Peace

Conference:

**Intercultural Dialogue and Cultural Diplomacy in Practice**

15 January: 15.00-17.45

UNESCO-Amphitheatre  
University of Nicosia, Cyprus  
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open to the public

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