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1. Cyprus Problem

During the month of April, the Greek Cypriot and Turkish Cypriot negotiators, Andreas Mavroyiannis and Kudret Özersay, continued their meetings as part of the screening process of the ongoing Cyprus negotiations. The process, which intends to assess and compare the position of the two sides on various issues that make up the Cyprus problem, has been marked by a controversy of messages sent by the two representatives.

On the one hand the Turkish Cypriot side argues that a deal could be reached in a matter of months, whereas, on the other hand, the Greek Cypriots point out the divergence of opinions, indicating that an agreement is a long way off. Additionally, disagreements appear to centre on the convergences document prepared by the UN regarding the talks between 2008-2012. Özersay accused the Greek Cypriot side of trying to renegotiate the convergences, while Mavroyiannis stated that the document was not on the negotiation table.

Despite the divergence of opinions the screening process was completed on April 15. At the end of the month the two negotiators travelled to South Africa at the initiative of the US to collect information about the reconciliation efforts in the country, which eventually ended apartheid and introduced democracy. The visit took place between April 25 and 29.

On April 4, UNFICYP announced that an agreement was reached for the provision of demining support from the United Nations Interim Force in Lebanon (UNIFIL) in order to clear landmines laid down in the buffer zone since 1974. A demining unit commenced work on April 7 and is expected to complete the required tasks by the end of May. The agreement came after the recent United Nations Security Council resolution (2135) of January 30, 2014, which called for the demining of the island. Derviş Eroğlu had also proposed demining the island in March as part of a confidence building measure (CBM).

The Turkish Cypriot leader met with UN Secretary General Ban Ki-moon in New York on April 21, where he expressed the view that he expected a conclusion of the current negotiations with a settlement by the end of this year. His statements came under fire from the Greek Cypriot side for misrepresenting the state of talks. From his end, the UN Secretary urged both sides to maintain the momentum in the ongoing negotiations.

The enhancement of the EU's role in the Cyprus negotiations and the return of the fenced-off area of Famagusta as a CBM were at the centre of talks between President Anastasiades and EU Enlargement Commissioner Stefan Füle, who was present at the inauguration of the new bi-communal wastewater treatment plan at Mia Milia on April 7. The active involvement of the EU in the negotiation process and CBMs were also discussed between Anastasiades and US

Deputy Assistant Secretary of State Eric Rubin on April 8.

A proposal that would allow Turkish Cypriots to register with the Immovable Property Commission (IPC) to swap land with Greek Cypriots was approved by the 'TRNC'¹ cabinet and is expected to go through parliament. The proposal envisages that Turkish Cypriots will be able to exchange their property in the south with a Greek Cypriot who owns property in the north. The IPC was set up in 2006 as an effective remedy relating to property claims in the north in accordance with the rulings of the European Court of Human Rights.

For the first time since 1957 a Good Friday service was held at the Ayios Giorgios Exorinos Church in Famagusta. The historic event was hailed by the UN as a prime example of restoring trust between the two communities.

The implementation of a new procedure for issuing entry visas to Turkey via an online application form which does not include the

¹ 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).

Republic of Cyprus but instead refers to the 'Greek Cypriot Administration' led the Cypriot foreign ministry to call on Greek Cypriot citizens not to travel to Turkey. The move comes at a time when peace talks are underway and a great deal of international focus is on clinching CBMs that would improve the climate not only between the two communities but also between the Greek Cypriots and Turkey.

2. Hydrocarbons

In an interview given to Reuters on April 9 President Anastasiades stated that the discovery of natural gas within Cyprus' economic zone could facilitate international efforts to resolve the Cyprus problem and provide an alternative energy supply source to Europe, thus decreasing its dependence on Russian gas imports. Additionally, in a speech delivered on April 12 at a conference on new challenges for Euro-Mediterranean relations after the Arab Spring, the President stated that Turkey could become a customer for Cypriot gas after a solution, but not a strategic partner. However, he ruled out any question of including natural gas in the island's reunification talks.

On April 24, a high level delegation from Deutsche Bank arrived in Cyprus to discuss financing prospects for a natural gas liquefaction (LNG) terminal. Apart from the direct financing option, the government together with Deutsche Bank and the European

Investment Bank is considering the possibility of finding investors to participate in the ambitious project with estimated costs of around € 8-10 billion. The German Bank is also involved via a management role in Israel's Leviathan gas field.

On the same day, the Natural Gas Public Company (DEFA) started assessing the bids submitted by interested suppliers of natural gas for electricity production. DEFA received four proposals on April 14, but did not reveal any details of the bidders as it is bound by a confidentiality agreement. Meanwhile, the partners developing Israel's offshore Leviathan field, announced at the Tel Aviv Stock Exchange that they have a bid to sell gas to Cyprus via a pipeline. The Leviathan partners are Israeli Ratio Oil Exploration and Delek Group, and US based Noble Energy. The bid was estimated by financial daily *Globes* to be worth around \$3bn. *Globes* also reported that other bids came from Dutch-owned oil trader Vitol, a group led by the Azeri state oil company SOCAR, and a Greek consortium.^{be}

3. Greek Cypriots

Economic Developments

During the month of April as part of attempts to attract foreign investment, President Anastasiades visited the United Arab Emirates (UAE). The visits took place between April 14 and 18. Moreover, a group of investors from the Gulf

state of Kuwait, namely the Kuwait Projects Company Holding (KIPCO), visited Cyprus on a fact-finding mission, exploring various potential business ventures on the island. The KIPCO delegation seemed interested in tourism related projects, marinas and golf courses, large scale development projects, but also semi-governmental organizations which are to be privatised under the Memorandum of Understanding with the Troika². Their visit came after the President's visit in Kuwait in October 2013.

The BoC board of directors are considering the creation of a separate entity, a so-called development bank, instead of a 'bad bank' to handle non-performing loans (NPL). NPLs reached around 50% at the end of 2013. However, the funding of the new entity seems to be a headache for the board. The bank's consultants, HSBC, pointed out that the new entity could be capitalized by private investors. This suggestion was met with some resistance from some shareholders and members of the board. The alternative is for the government to participate in the financing of the new entity. Meanwhile, BoC is also positively viewing a revised offer to sell its Ukrainian subsidiary, PJSC Bank of Cyprus, to ABH Ukraine Ltd, which is part of Russia's Alfa Group, at a price about 10% lower than the €225 million offered last January.

² The Troika is comprised by the International Monetary Fund, the European Commission and the European Central Bank.

In the co-operative sector, some 280 employees have opted to take an early retirement scheme as part of the sector's restructuring plan.

On a different front, the European Stability Mechanism (ESM) approved the disbursement of €150 million to Cyprus following the positive assessment of the third quarterly review of the island's macroeconomic adjustment programme. The current disbursement brings the total amount of ESM financial assistance for Cyprus to €4.75 billion. Cyprus' international lenders will commence their fourth review of the country's economic adjustment programme. The Troika delegation is expected to arrive on May 6.

Standard & Poor's Rating Agency upgraded the island's sovereign credit rating to 'B' from 'B-' with a positive outlook due to better than expected economic performance in 2013. Fitch Ratings also revised the outlook on Cyprus' long-term local and foreign currency Issuer Default Rating (IDR) from negative to stable due to large fiscal corrections.

On April 27, as part of a probe into the collapse of the island's economy, the Central Bank of Cyprus (CBC) Governor, Chrystalla Georghadji, provided the House Ethics Committee with a list of names of individuals and companies that took money out of Cyprus between March 15 and March 27, 2013. During this period there were strict capital controls which forbade the transfer of capital to foreign accounts.

AKEL had originally demanded the publication of a list of 11,000 names containing companies and individuals that transferred amounts abroad from July 2012 to March 2013. This demand was eventually taken back after protests by the business community. The House Ethics Committee eventually decided on April 30 not to publish the list.

On April 30, the Cyprus government sold six-year bonds with 6.5% interest rate at €100 million, the first time after Cyprus was excluded from financial markets in 2011. The bonds will be traded at the London Stock Exchange and will be used for public debt management.

According to Eurostat, Cyprus' unemployment rate reached 17.4% in March, which represents 78,000 people, compared to 16.8% in February. Cyprus also recorded the highest annual increase from 14.8% to 17.4%. According to its World Economic Outlook, the IMF expects unemployment to fall from 19.8% to 19.2% in 2014 and 18.4% in 2015. Cyprus's GDP is expected to shrink by 4.8% in 2014 while a growth rate of 0.9% is forecasted for 2015.

Domestic Developments

President Anastasiades announced a restructuring of the military service, which is currently compulsory and lasts 24 months. The government plans to reduce the service to 14 months as there is an increasing number of conscripts getting out of the service on the basis of

psychological grounds. Cyprus does not provide for conscientious objection to military service.

Due to a historically low amount of rainfall during the winter, Cypriot farmers are facing financial problems. According to agriculture minister Nicos Kouyialis farmers will be paid up to €14 million in compensation this year. Furthermore, drinking water will not be cut, whereas water for irrigation will be rationed. The current situation prompts plans to recycle water and use waste-water plants like in Milia and the construction of an additional plant. In 2008 Cyprus faced a severe drought and had to import water with tankers. In this context the water pipeline from Turkey to the north, which is to be finished in September, is an interesting aspect and might be an additional incentive in the peace talks. DISY and AKEL were faced with allegations of receiving donations in 2007 and 2008 from Focus Maritime Corporation which is owned by Greek Ship owner Michalis Zolotas a close friend and associate of Andreas Vgenopoulos. The story was published by local daily newspaper Politis and implied that the payments were made on Vgenopoulos' behalf in order to gain political influence. Vgenopoulos is among the main suspects accused for the collapse of the Cypriot economy. He was the president and major shareholder of the Marfin Popular Bank that was wind down after incurring huge losses during his reign in the context of the bail-in agreement with the Troika in 2013.

Foreign Policy

On April 16, foreign minister Ioannis Kasoulides expressed concerns that EU sanctions on Russia would have negative effects for the local economy. In particular, this concerns Russian legal and accounting firms as well as the number of Russian and Ukrainian tourists. Furthermore, according to Central Bank of Russia, \$12.9 billion was invested into Russia from Cyprus in the last three quarters of 2013. The Cypriot foreign minister suggests that each country should decide for itself whether it would take part in possible economic sanctions against Russia.

In the running-up of the European elections, Jean-Claude Juncker, the centre-right candidate for the post of president of the European Commission, announced plans to come to Cyprus during his campaign.

On April 27 the government condemned a Note Verbale sent by Turkey to the United Nations delineating the continental shelf between it and the 'TRNC'. The delineation agreement between the 'TRNC' and Turkey was signed in New York in 2011 and ratified by Turkey through law 6344 in 2012.

4. Turkish Cypriots

President Derviş Eroğlu briefed the parliament on the latest stage reached at the negotiations on April 2. The meeting, which was held closed to the press, lasted six and a half hours. Mr

Eroğlu announced that he briefed the deputies especially about the Greek Cypriot proposals and the work of the technical committees.

Foreign Minister, Özdil Nami argued that the Greek Cypriot side had slowed down the process, and said that it would not be possible to reach a settlement by meeting only once a month at the leaders' level. Likewise, "meeting once a week at the negotiators' level is unacceptable. The pace must be speeded up," Mr Nami added.

The electoral alliance between the main opposition National Unity Party (UBP) and the junior coalition partner Democratic Party-National Forces (DP-UG), which had been announced last month, was terminated by the UBP. According to UBP leader Hüseyin Özgürgün, the nomination of a deputy as a mayoral candidate in İskele/Trikomo by the DP-UG was the deal breaker. In response to a question, Mr Özgürgün said "our support to Derviş Eroğlu is continuing. The situation with the DP-UG for the local elections is one thing, the presidential elections is another."

Earlier, the DP-UG had decided to remain in the coalition government with the CTP-BG and to continue its alliance with the UBP. Reportedly, the party was split over these two issues; while one side wanted to leave the coalition, the other wanted to terminate the alliance. Accordingly, on the last day of the month, Zorlu Töre, a deputy from the UG wing of the DP-UG announced his resignation from the party. He

cited the termination of the electoral alliance as the main reason for his resignation, and called for the formation of a new coalition government, which will exclude the CTP-BG. After Mr Töre's resignation, the distribution of seats in the Turkish Cypriot parliament is as follows: CTP-BG: 21, UBP: 14, DP-UG: 11, TDP: 3 and independent: 1.

Earlier in the month, Mr Töre, who is known for his ultra-nationalist views, had reportedly started a "no" campaign for a possible referendum by distributing a map, which showed the villages to be returned to the Greek Cypriots in case of a settlement. "It is the product of his imagination," said Mr Nami about the map.

The UBP's Nicosia mayoral candidate, Hasan Sertoğlu withdrew his candidacy. Mr Sertoğlu, who is the chairman of the Turkish Cypriot Football Association (KTFF), said that he had taken this decision because he saw that his candidacy would jeopardize the implementation of the provisional agreement between the KTFF and Cyprus Football Association (KOP). "The process must not be harmed. I am determined on this issue, therefore, I have withdrawn my candidacy" Mr Sertoğlu said.

The Social Democratic Party (TDP), the United Cyprus Party (BKP) and the Baraka Cultural Centre have officially announced their decision to work together for the upcoming local elections. According to the agreement, among others, the TDP will nominate the party's secretary general Mehmet Harmancı in Nicosia. Mr Harmancı had

served as the minister of tourism in the popular interim caretaker government last year.

A joint bi-communal electoral list has been formed under the name "Action" to contest in the upcoming European Parliament elections. The list, which has gender equality, consists of two Turkish Cypriot and four Greek Cypriot candidates. The Radical-Left cooperation group announced their candidacy at a press conference held at the Home for Cooperation in the buffer zone on April 29.

Meanwhile, a cooperation protocol was concluded between the Turkish Cypriot Foreign Ministry and the Turkish EU Affairs Ministry on April 20. The protocol was signed by the Turkish Cypriot Foreign Minister Özdil Nami and the Turkish EU Affairs Minister and Chief Negotiator Mevlüt Çavuşoğlu. The protocol aims to develop the cooperation between the two ministries on issues relating to EU accession and harmonization with the EU *acquis communautaire*. On a different note, Mr Çavuşoğlu expressed his belief that a solution can be found to the Cyprus problem by the end of this year.

Turkish Cypriot leader, Derviş Eroğlu invited his Greek Cypriot counterpart Nicos Anastasiades to attend the Deep Purple concert together as a confidence building measure. The English rock band will appear live at the Near East University in northern Nicosia on May 24 as part of the university's 25th anniversary celebrations. The concert will be free and open to the public.

The mayor of Famagusta Oktay Kayalp stated that the fenced-off city of Varosha is in a very bad condition and that it needs at least 5 years for Varosha to come to a point that people could live there. He proposed the launching feasibility works in the city before any comprehensive settlement with the cooperation of the two communities.

According to the figures released by the ministry of finance, in January 2014, the ministry issued 39,854 pay-checks, which overall amounted to some 150 million Turkish lira (roughly €50 million). The number included the permanent personnel employed in the public service, pensioners, and social assistance recipients.

The State Planning Organization (SPO) announced its growth and inflation forecast for the 2014-16 period. According to the SPO, the GDP will grow 2.3%, 3.8% and 3.8%, while the inflation rate will be 8.9%, 4.8% and 4.6% respectively. Commenting on the figures, the SPO undersecretary said that the growth trend was expected to be lower compared to the last 10 years and that fluctuation in the foreign exchange rates and global oil prices would have an important impact on the inflation figures. The SPO earlier in the month revealed that the inflation rate in the year to March was 15%.

5. FES Cyprus Events

May

Monday 5. May 2014, 18.00 – 20.00 pm

FES

Discussion

Eine geteilte Insel vor großen Entscheidungen

A Divided Island Faced with Big Decisions

Hiroshimastraße 28, Konferenzsaal, Haus 2, Berlin
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University of Nicosia / Institute for Cultural
Diplomacy / Anna Lindh Foundation Cyprus
Network / UNESCO Chair / FES

Conference

**Cultural Diplomacy and Narratives of Conflict
in the Middle East**

University of Nicosia
Open to the public



Saturday 10. May 2014, 9.45 am – 5.30 pm

CAD /Australian Embassy Turkey / Australian
High Commission Cyprus / FES

Workshop

Istanbul Roundtable – May 2014

Cyprus Academic Dialogue
Istanbul Policy Center



Saturday 17. May 2014, 09.00 am – 14.00 pm

University of Nicosia / PRIO Cyprus Center / FES

Conference

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**"After the crisis: searching for the causes of
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Friedrich Ebert Foundation (FES)

Office Cyprus

20, Stasandrou , Apt. 401

CY 1060 Nicosia

Tel. +357 22 377 336

Email: fescyprus@cytanet.com.cy

Web-Page: www.fescyprus.org

Text:

Hubert Faustmann, Sertac Sonan,

Yiannis Charalambous and Ute Ackermann Boeros

Layout:

Christiane Paparoditi

If you want to subscribe or unsubscribe to this (free) newsletter, please send an email to:

Christiana Paparoditi fespaparoditi@gmail.com