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FES NEWS

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1. Cyprus Problem

During the month of July, President Nicos Anastasiades and Turkish Cypriot leader, Derviş Eroğlu, held three meetings as part of the second phase of the ongoing negotiations. The focus of these meetings was an attempt to reach an agreement on confidence building measures (CBMs). Additionally, already agreed upon convergences and the negotiation procedures to be followed during the next phase of the peace talks were discussed. Regarding the CBM's, Turkish Cypriot proposals were rejected by the Greek Cypriots, as it would imply international recognition of the 'TRNC'¹. On the other hand, the Turkish Cypriot side objected to the return of Varosha, now a ghost town, which was top of the list for the Greek Cypriot negotiating team. In the meeting on July 24, both sides submitted for the first time detailed proposals on all aspects of the Cyprus Problem. The Greek Cypriots submitted in total 17 documents, laying out their positions on various aspects of a future settlement, while the Turkish Cypriots tabled 15 documents on all issues, including the

¹The 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).

sensitive issues of guarantees and territory, though no map was submitted.

Subsequently, peace talks were put on hold for the summer. The negotiating teams were unable to come to an agreement on the convergences achieved and the negotiation procedures for the next phase. Anastasiades and Eroğlu are expected to meet again on September 2, 2014. The respective negotiators, Andreas Mavroyiannis and Kudret Özersay, will continue discussions on negotiation procedures and CBMs. They are expected to meet again on August 26, 2014.

According to Turkish Cypriot daily *Halkın Sesi* the Greek Cypriot team tabled a proposal to maintain a small army on the island post solution, contrary to the traditional and consistent Greek Cypriot demand for full demilitarisation of the island. Ongoing conflicts in Syria, Palestine, Ukraine and Georgia were raised as examples to highlight the need for security in the future.

On July 24, Anastasiades and Eroğlu paid a joint visit to the anthropological laboratory on the Committee on Missing Persons (CMP)².

²The CMP is a bi-communal body established in 1981 by the leaders of the Greek Cypriot and Turkish Cypriot communities with the participation of the United Nations. Its objective is to recover, identify, and return to their families, the remains of 2001 persons 502 Turkish Cypriots and 1,493 Greek Cypriots who went missing during inter-communal strife in the 1960s and the 1974 Turkish invasion

In response to the presence of foreign ambassadors who attended lunches hosted in the north by the 'TRNC' foreign ministry, the RoC issued a note verbale on July 1, setting the framework for contacts between foreign ambassadors and Turkish Cypriot officials as representatives of a non-recognised entity. The note verbale reflected the government's irritation warning the ambassadors that similar future instances would result in the downgrading of their meetings with legitimate Cypriot officials.

On July 1, the bi-communal committee on cultural heritage and the United Nations announced the signing of the contract for phase one of the restoration a historic Greek Orthodox monastery known as Apostolos Andreas located in the Karpas peninsula. Phase one of the restoration project will last 22 months. The project is funded by the Church of Cyprus and the Evkaf Administration through two contribution agreements worth €2.5 million each. USAID also contributed €25.000.

A criminal complaint for war crimes against Turkey was filed on July 14 at the International Criminal Court (ICC) in The Hague by MEP Costas Mavrides and the Cypriots Against Turkish War Crimes (CATWR) Foundation, requesting the courts prosecutor to open an investigation against individuals responsible for the war crime of directly and indirectly transferring civilian populations of an occupying power into occupied territory. If the court decides to open the case, the prosecutor will start an investigation in order to identify individuals

who had an active role in perpetrating the war crimes. If sufficient evidence is found against any of the individuals mentioned in the case, they will be indicted and an arrest warrant will be issued against them. The government also put itself at the disposal of the ICC to provide documentation on the government sponsored immigration of mainland Turks to the occupied area of Cyprus by Turkey.

July 15 marked the 40th anniversary since the Greek junta engineered coup to overthrow the island's president, Archbishop Makarios. The coup triggered the Turkish invasion on July 20, 1974, which led to the occupation of one third of Cyprus and to the de facto division of the island. Memorial services were held across the RoC for those killed during these events. In the 'TRNC' various celebrations were held to mark the anniversary of what is considered in the Turkish Cypriot narrative a peace operation. The celebrations were attended by Turkish President, Abdullah Gül.

On July 27, President of the RoC Nicos Anastasiades travelled to Athens where he met with Greek Prime Minister, Antonis Samaras, as part of a two day visit. The stalled negotiations were the focus of the meeting. At the end of the month, the UN Security Council renewing the mandate of the UN Peacekeeping Force In Cyprus (UNFICYP) on July 30 for a further six months until January 31, 2015.

2. Hydrocarbons

On July 30, the government signed a Memorandum of Understanding (MoU) with the Italian-South Korean joint venture ENI-KOGAS for the exploration and development of natural gas offshore Cyprus. ENI and KOGAS hold prospecting concessions of blocks 2, 3 and 9 of Cyprus' Exclusive Economic Zone (EEZ), with an 80% and 20% participating interest respectively.

Energy minister, Giorgos Lakkotrypis announced that the consortium will commence exploratory drilling at the end of the summer in the 'Onasagoras' field of block 9. Six potential fields have so far been identified in the three blocks under the licence of ENI-KOGAS. Noble is expected to carry out their next exploratory drilling in block 12 early 2015, while Total with concession in blocks 10 and 11 is expected to commence exploratory drillings towards the end of the same year.

3. Greek Cypriots

Economic Developments

A Troika³ delegation was in Cyprus on July 14 to conduct the fifth evaluation of the island's economic adjustment program.

³The troika is comprised by the European Commission, the International Monetary Fund (IMF) and the European Central Bank (ECB)

The Troika mission kicked off its review with the key issue of non-performing loans (NPLs) which account for 45% of all loans or €27.1 out of €60 billion. The main focal point which occurred during the fifth review was a foreclosures bill which the Troika considers as crucial in the effort to tackle rising NPLs. The bill will allow lenders to liquidate properties used as collateral on defaulting mortgages in private auctions. Primary residencies will be temporarily excluded from the bill's scope until the end of the year, when the government is scheduled to have drafted and passed insolvency legislation. The new bill will include a 'safety net' to offer alternatives to homeowners who are at risk. The main aim of the bill is to force borrowers to meet their obligations or restructure their loans. Current procedures allow for legal tangles that translate to foreclosure adjudications to last more than a decade.

All parties positioned themselves against the foreclosure bill. AKEL, DIKO and EDEK threatened to reject the bill in parliament, especially if safeguards were not put in place to protect first residencies. DISY and EVROKO criticized the banks for mounting numbers of NPL's but did not express any willingness to approve the bill in its current form. Incidentally, unless parliament does not approve the bill by September 2014, Cyprus will not receive the next tranche of assistance amounting to €436 million. On July 30, the bill was approved by the cabinet and submitted to parliament.

The lenders concluded their mission on July 25, describing the island's fiscal performance as 'on track' and expressed their satisfaction regarding the progress made on the National Health Scheme. According to an IMF report, Cyprus is likely to return to economic growth in 2015. The report cautioned that such an outlook was tempered by tensions over Ukraine and rising bad loans of banks and highlighted the urgent need for a streamlined foreclosure framework to promote payment discipline.

On July 5, Fitch Ratings upgraded BoC's long-term issuer default ratings to 'CC' from 'RD' and Hellenic Bank's to 'CCC' from 'RD'. According to Eurostat, Cyprus marked the highest increase in government debt to GDP ratio in the Eurozone for the first quarter of 2014, from 87.6 % to 112.2 %.

On July 28, the Bank of Cyprus board of directors announced the successful private placement of €4.17 billion in new ordinary shares at a price of 24 cents per share, for a total capital increase of €1 billion. The capital increase has shaken up the shareholders' base of the island's largest lender which slipped into foreign hands after more than a century known as the 'Common to all Cypriots'. Nevertheless, the €1 billion equity investment will put the lenders' capital adequacy on a solid footing making it one of the best capitalized banks in Europe.

With the capital increase the bank shares will number 8.9 billion of which the new shares account for 47%. These shares were allocated

to a broad range of institutional investors from Europe, North America and Russia. Interested parties included the European Bank for Reconstruction and Development (EBRD) which invested up to €120 million and WL Ross & Co. LLC⁴. The latter's €400 million investment works out to 19% of the total shares value, potentially making it the largest shareholder in BoC, superseding the Laiki depositors who hold 18%.

The bank had announced on July 4 its decision to seek investors for a potential capital increase in a bid to expedite restructuring and further strengthening the bank's financial position. The decision ended weeks of speculation and reports of conflict between the bank's board and senior government, as well as with the Central Bank (CBC). This decision implies that recapitalization should take place. A few days earlier the CBC had issued an ultimatum to the bank in order to confirm adherence to the originally agreed upon timeframe for a capital increase ahead of EU wide stress tests of about 128 banks in the Eurozone.

As part of its gradual recovery the bank decided to release 12 month deposits worth €927 million that were blocked according to the terms of its recapitalization in July 2013. Meanwhile, the €1 billion capital increase was opposed by the

⁴WL Ross & Co. LLC is a private equity firm specialising in restructuring, buyouts, turnarounds, reorganizations and industry consolidations. The firm invests in financially distressed companies. It is owned by American billionaire Wilbur Ross.

BoC's old shareholders association with its chairman, Archbishop Chrystostomos, threatening to file a law suit against the bank. The association demands the restoration of the value of the old shareholders' equity stakes in the bank by recognizing a €1.9 billion profit arising from the BoC's takeover of ex-Laiki bank's operations, or the granting of property owned by the BoC in the north held in the lender's books at zero value. The old shareholders saw their shares' value diminish to 1% in March 2013, following the conversion of 47.5% of uninsured deposits into equity, the absorption of ex-Laikibank and the sale of the bank's Greek operations to Piraeus Bank.

A report issued by the Financial Crimes Enforcement Network (FinCEN) of the US Treasury accused the Federal Bank of Middle East (FBME) of facilitating money laundering and financial activity for transnational organized crime and Hezbollah. As a result the bank was placed under CBC administration. The bank's operations have been suspended since July 24. FBME, which is based in Tanzania but primarily operates in Cyprus, denies the allegations of the US Treasury, claiming that it is a victim of a hostile takeover. Furthermore, FBME said the US Treasury had compiled the report without its input. The bank contributed to the financial obligations of the Republic while negotiating its MoU, through a €240 million investment in short term treasury notes. In April 2013, the bank had undergone a full AML audit by KPMG Germany and as a result had implemented all recommended measures.

Buena Vista Hospitality Group (BVHG), an American based group of companies specialized in hospitality and resort management, announced plans to establish its headquarters for the Eastern Mediterranean, the Middle East and the Balkans in Cyprus. BVHG's plans include the creation of Europe's largest health, wellness and sports resort. Of note is the group's interest in entering a joint venture with the Church of Cyprus in order to refurbish the Ledra Palace Hotel. The hotel, which has hosted numerous high-level meetings between Greek and Turkish Cypriot leaders since 1974, is situated in Nicosia's buffer zone and currently serves as the headquarters for Sector 2 UN Roulement Regiment, which is part of the UNFICYP.

In an attempt to boost the role of agriculture in the overall economy, the government approved a Rural Development Programme for the period from 2014 to 2020. The programme is worth € 240 million. An additional €53 million will be available through the Operational Programme for Fisheries, of which € 40 million is from the European Union. The registration of the island's *halloumi* cheese as a product with Protected Designation of Origin (PDO) is seen as a major step. This has been a concern with the Turkish Cypriot dairy producers who fear that their *helim cheese* will be left out of the programme. The registration of *halloumi* as PDO with a specific amount of goat and sheep milk involves also an increased number of livestock, which in turn, attracts foreign investment.

Foreign Policy

Air traffic in Cyprus increased considerably when flights to Tel Aviv airport from the US and Europe were cancelled and diverted to Cyprus from July 22 to 24. During the suspension of the flights to Israel, additional flights between Tel Aviv and Cyprus were introduced.

Another outflow of the current war in Israel is that both a Champions League and Europa League qualifying match will be held in Cyprus.

As in many other countries, Cyprus closed its embassy in Libya as fights between rival militias have increased in ferocity and number.

Increased American interest in Cyprus as a result of the gas findings is seen as the main reason for a number of high-level visits on the island in recent months. According to the *USA Greek Reporter*, Cyprus' position has changed to that of a strategic partner for the US. The US Secretary of State, Joe Biden, recently pointed out that a united Cyprus is of utmost importance, if –also in the light of the recent Russo-Ukrainian dispute – alternative gas supplies have to be used. In his eyes, Turkey would also benefit from a bi-zonal, bi-communal federation. As such, American pressure is also directed towards the removal of Turkish troops from the island. Cyprus continues to play an important role in a regional context and is, from the American point of view, “an essential link to our war on terrorism”.

4. Turkish Cypriots

The month of July began with the aftershocks of the local elections on political parties. In fact, none of the parties was satisfied by the election results. Yet, after losing the municipalities of Nicosia, Famagusta and Kyrenia, especially the senior coalition partner, the Republican Turkish Party–United Forces (CTP-BG) found itself in a small-scale crisis, despite the fact that it came first in terms of total votes received.

The outgoing CTP-BG mayors attributed the electoral defeat to the internal conflicts and lack of discipline within the party. Particularly, the outgoing mayor of Famagusta, OktayKayalp accused some high-level party officials of “treason”, and the officials of the Famagusta branch of the party called for disciplinary action against those party members held responsible for the defeat. To a large extent, the whole affair in Famagusta can be seen as a settling of scores. A rift between the two groups had emerged last year during the campaign for the general election. Those who had been undermined in the general election by fellow party members decided to campaign against them in the local elections. After heated discussions among members and sympathizers, the central executive committee of the party decided to form a committee to investigate the allegations. Furthermore, the party assembly decided to form a self-criticism and discipline mechanism in order to develop solutions for the internal party problems.

In the meantime, the Supreme Electoral Council announced the results of the municipal council elections. The CTP-BG candidates won 111 of 272 seats, while the National Unity Party (UBP), Democratic Party-National Forces (DP-UG), Social Democratic Party (TDP), United Cyprus Party (BKP) and New Cyprus Party (YKP) won 102, 42, 14, 2 and 1 seat respectively. This is the first time that the BKP and YKP won representation in municipal councils.

The relationship between the president and the CTP-BG were strained over the negotiation process towards the end of the month. President Derviş Eroğlu harshly criticized the Foreign Minister Özdil Nami for saying that RoC President Anastasiades had not abandoned the negotiating table during the meeting between the leaders on July 24th. In the written statement issued by Eroğlu's office it is said "a matter, which draws attention and saddens, is that an authority among us, in spite of the realities which are there, has almost become a defender of Anastasiades by alleging that it is out of the question for Anastasiades to leave the table. The fact that he insists on this issue and made no correction in spite of the information provided to him on this matter and all the warnings, is thought provoking."

In response, the CTP-BG secretary general Kutlay Erk issued a written statement, and "strongly condemned" the president's accusation towards Nami. "The president's attack to the foreign minister is unacceptable," Erk said, adding that he "owed an apology to Nami as

well as the people because of his unfortunate statement, which reminds of the Cold War period". Furthermore, Erk referred to the news about Anastasiades leaving the table as "deliberate propaganda," and criticized the strategy adopted by the president in the negotiations. "This is not in line with Turkish Cypriot people's interests and will work against us," he added.

Earlier in the month and in a different context, "the negotiation process has completely collapsed," said Özdil Nami in a TV program. In a similar vein, former Turkish Cypriot president Mehmet Ali Talat said that the current negotiation process had reached a deadlock.

Turkish Cypriot negotiator Kudret Özersay said that he was considering running for president next year. Other potential candidates include President Eroğlu, his predecessor Talat, former deputy Prime Minister Mustafa Akıncı, Özdil Nami, as well as the speaker of the parliament, Sibel Siber.

Prime Minister Özkan Yorgancıoğlu visited the Turkish Prime Minister Erdoğan in Istanbul on July 11 to discuss the economic situation as well as the drought problem in the northern part of Cyprus. Upon his arrival, Yorgancıoğlu said that, "Our meeting was very positive and sincere. Besides the problems of our country, we discussed the 2014 budget and concluded that the budget targets of 2014 will be achieved". "Positive results of the visit will be seen soon," Yorgancıoğlu added. He was

accompanied by the Minister of Finance Zeren Mungan, and the Minister of Agriculture and Energy Önder Sennaroğlu during the one day visit.

For the first time in Turkish history, its people will be electing a president directly on August 10. Also for the first time, Turkish citizens living abroad were given the opportunity to cast their votes in polling stations set up overseas. Turkish citizens living in Cyprus cast their ballots at two polling stations that were set up in Nicosia between the July 31 and August 3. Reportedly, there were some 92,000 Turkish nationals eligible to vote in the presidential election in Cyprus. Binali Yıldırım, former Transport Minister, and Chief Adviser to the Turkish Prime Minister and presidential candidate Erdoğan, paid a visit to the northern part of the island as part of the presidential election campaign.

The chairman of the DP-UG and deputy Prime Minister Serdar Denktaş who had been rushed to hospital after collapsing during a plenary session at the parliament, underwent a coronary angiography.

On July 11, Greek Cypriot and Turkish Cypriot mayors of Nicosia, Constantinos Yiorkadjis and Mehmet Harmancı met to discuss a list of priorities that will allow the two municipalities to work together to reach common goals. The meeting took place at the Home for Cooperation in the UN patrolled buffer zone.

At a press conference held in the buffer zone on July 10, Turkish Cypriot Chamber of Commerce

(KTTO) and Cyprus Chamber of Commerce and Industry (CCCI) announced their joint project “Setting an Example,” which aims to contribute to the reconciliation between business circles across the divide.

The Board of Financial Assistance under the Turkish Embassy in Nicosia published the “2013 TRNC Economic Situation Report”. In the foreword of the report, Turkish Ambassador Halil İbrahim Akça said that it was absolutely urgent to complete the reforms identified in the economic program so that the TRNC's economic growth would develop so that prosperity would increase. Otherwise, he argued, “the gap with Turkey will grow and the opportunity to catch up with the south will be squandered”. Furthermore, Akça pointed out that “asking for additional financial assistance from Ankara instead of creating new resources locally has pushed the relations with Turkey into an unhealthy basis.” The report estimates that the Turkish Cypriot economy grew 2 percent in 2013 and that the GDP per capita stood at \$15,622 – \$227 more compared to a year ago.

According to a US State Department report on money laundering and financial crimes, the resources dedicated to enforcing the anti-money laundering law in the northern part of Cyprus falls short of the present need. “Experts agree the ongoing shortage of law enforcement resources and expertise leave the casino and gaming/entertainment sector essentially unregulated, and, therefore, especially vulnerable to money laundering abuse,” the report said,

adding that “the unregulated money lenders and currency exchange houses are also areas of concern for law enforcement.”

On July 25, an armed robbery on the Nicosia-Morphou highway led to the loss of 3 million TL (a little more than €1 million). Two masked men stopped the unguarded rental car which carried the funds from the Cooperative Central Bank’s main branch in Nicosia to its branch in Morphou and hijacked it. The bank authorities have come under fire for not taking necessary security precautions in their transportation of large amounts of money, and for the use of the bank’s own insurance company for insuring the money. Though eventually it managed to detain two suspects, the handling of the investigation by the local police was also heavily criticized.

On the first day of Eid al-Fitr, which marks the end of the fasting month of Ramadan, a group of pilgrims from the northern part of Cyprus including Turkish citizens were granted a special permission to pray in the Hala Sultan Tekke in Larnaca. Talip Atalay, Head of Religious Affairs thanked the two leaders, the negotiators and the Church for their contribution in the materialization of the visit. “This is a very important step in the name of peace,” Atalay said.

5. FES Cyprus Events

August

4. -10. August 2014

WINPEACE / FES

Summer Youth Peace camp

Cyprus



22. August -2. September 2014

IKME / BILBAN / FES

Deutsch-Zypriotisches Jugendaustauschprogramm

(German-Cypriot Youth Exchange programme)

Germany – Berlin/Hannover



September

Friday-Saturday 26.9. - 27.9. 2014
GOETHE / UCY / FES

Conference

Cyprus in World War I

Goethe-Institut Cyprus hall (in the Buffer Zone
next to Ledra Palace)
Open to the Public



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