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1. Cyprus Problem

On August 19, Turkish and Greek Cypriots gave their consent to the proposed appointment of the Norwegian, Espen Barth Eide as Special Advisor to the UN Secretary on the Cyprus Issue. Eide served as Norway's defence minister from November 2011 to September 2012 and then as foreign minister until October 2013.

The appointment was pending since the resignation of Alexander Downer from his post on February 11, 2014. During the interim, the UN Chief of Mission and UN Secretary General's Representative in Cyprus, Lisa Buttenheim, had been filling in as the Special Envoy.

Eide is expected to visit the island between September 5 and 8. As a result the leaders' meeting, originally scheduled for September 2, has been postponed.

On August 26, the Greek Cypriot and Turkish Cypriot negotiators, Andreas Mavroyiannis and Kudret Özersay respectively, held their first meeting after the summer recess. The negotiators exchanged views on the methodology and the way forward in preparation for the upcoming leaders' meeting. They also discussed the role of the UN in the next phase, given the appointment of Espen Barth Eide as the new Special Envoy, and how to move forward with the negotiations themselves in view of the stalemate regarding the respective positions of the two sides.

President Nicos Anastasiades held meetings with Cemal Özyiğit, leader of the Turkish Cypriots Social Democratic Party (TDP) and party members Deniz Birinci and Zeki Çeler. Özyiğit and Anastasiades discussed confidence building measures with the former stating his support for the restitution of Varosha, in return for direct flights to Ercan and trade through the port of Famagusta. The changes of the political scene in Turkey after Recep Tayyip Erdogan's election as President of the Turkish Republic were also discussed.

A congratulatory letter from President Anastasiades was passed to Erdogan by Greek foreign minister Evangelos Venizelos, during his visit to Ankara. Anastasiades called for the personal contribution of the Turkish President in achieving a solution. On similar lines, in a joint message, congratulating the newly elected Turkish president, the Presidents' of the European Council and the European Commission, Herman Van Rompuy and Jose Manuel Barroso respectively, urged Erdogan to support the efforts on reaching a settlement in Cyprus. Erdogan is due in Cyprus on September 1st.

US Ambassador, John Koenig also urged Turkey to contribute to efforts to solve the Cyprus problem during his address at the 25th annual overseas Cypriot conference of the Central Council of the International Coordinating Committee "Justice for Cyprus" (PSEKA). Koenig stated that the reunification of Cyprus continues to be an issue of top priority for the US. Moreover, PSEKA president, Philip Christopher,

announced that a series of meetings are being scheduled during Anastasiades' visit to the US where he will attend the meeting of the UN General Assembly in September.

Meanwhile a meeting held on August 1st between the President and party leaders revealed a rare moment of consensus on two points: the rejection of the road map for the peace talks proposed by the Turkish Cypriot side and the refusal to enter into the third phase of the give and take process for the time being. A three day conference of the National Council with regards to the handling of the Cyprus problem was also scheduled for September.

August 14 marked the 40th anniversary of the second phase of the 1974 Turkish invasion which was initiated after the second round of the Geneva talks failed. During the second phase, Turkish troops moved towards Varosha in the east and Morphou in the west, completing the de facto division of the island.

The Stelios Philanthropic Foundation announced the sixth competition for entrepreneurs, the Stelios Award for Business Cooperation in Cyprus, with a view to promote bi-communal business cooperation between Turkish and Greek Cypriot entrepreneurs. Up to ten awards of €10.000 each are given to those teams which best demonstrate bi-cultural teamwork and mutual trust. The awards will be announced in mid-October.

2. Hydrocarbons

On August 18, Energy Minister Yiorgos Lakkotrypis, visited Cairo as part of a series of visits to different countries to discuss the island's hydrocarbons prospects. The visit took place in preparation for the meeting of the presidents of Cyprus and Egypt in New York at the UN General Assembly.

During his stay, Lakkotrypis met with his Egyptian counterpart, Sherif Ismail. Lakkotrypis and Ismail presided over the meeting of the Cyprus-Egypt joint technical committee on hydrocarbons, which discussed the course and planning of the two countries with regards to hydrocarbons exploration and exploitation in their respective Exclusive Economic Zones (EEZ) as well as ways of enhancing their strategic cooperation on energy issues. Lakkotrypis stated that Nicosia will enter into concrete talks with Cairo over a possible natural gas sale to Egypt after the first results of the exploration activity by ENI-KOGAS in blocks 2, 3 and 9 are announced. The minister also reiterated that the construction of a liquefied natural gas (LNG) terminal remains a priority for Nicosia.

In relation to this, the government appointed a team of technocrats and officials to begin negotiations with ENI-KOGAS and with Total with the aim of reaching an agreement for the construction and operation of the LNG terminal at Vasilikos. It is understood that the MoU signed with the Italian/South Korean consortium and with Total is not restricted to a land based facility but allows for the exploration of

other options such as a floating LNG. In contrast, the negotiations with Noble and Delek are focused only on an onshore LNG.

Meanwhile, Israel's Delek Group, a strong contender for supplying Cyprus with natural gas, may have to pull back its bid due to complications in its Israeli operations. Noble Energy, Delek's partner in the Leviathan field, announced a delay in final decision on developing the field. Noble was expected to announce its development plan for Leviathan in September, with the date now pushed back indeterminately. Under the previous timetable, Leviathan was believed to be coming online in 2017. Thus, it is unlikely that Leviathan gas will be available by the time Cyprus expects deliveries, potentially throwing into question Delek's bid. The tender put out by Cyprus' Natural Gas Public Company (DEFA) called for the annual supply of between 0.7 and 0.95 billion cubic metres (bcm) of natural gas to the Cypriot market through two delivery routes, one in early 2016 and the other no later than the second half of 2017.

Earlier this month, DEFA announced it had finished assessing the commercial and financial proposals submitted to it and would commence direct negotiations with a number of bidders including Dutch energy firm Vitol, a conglomerate under Socar, the state-owned liquefied gas company of Azerbaijan, and Greek conglomerate M&M.

In the meantime, the partners in Israel's Leviathan field, Delek Drilling, Avner Oil Explo-

ration and Noble Energy, have already signed a non-binding letter of intent for a \$30 billion deal to supply natural gas to BG's liquefied natural gas plant in Idku, Egypt via an undersea pipeline.

The government announced on August 25 that it will denounce Turkey to the UN and the EU for dispatching the Barbaros Hayreddin Pasa research vessel that was conducting surveys off the Karpas Peninsula, between August 24 and October 2. The dispatching of the Barbaros ahead of Erdogan's visit to the north is not seen as a good omen.

3. Greek Cypriots

Economic Developments

The high percentage of non-performing loans (NPL's) which account for nearly 45% of all loans have become a major threat for the financial stability of the Cypriot banks. A foreclosure bill demanded by the Troika¹ needs to be passed in order to allow the banks to repossess mortgaged property whose owners are unable to pay their debts. Government efforts during the month of August to overcome the current impasse over the contentious foreclosures bill did not appear to have any results until August 29, when the administration

¹ The troika is comprised by the International Monetary Fund (IMF), the European Central Bank (ECB) and the European Commission.

indicated that it is willing to consider additions or amendments by the political parties to the legal framework of the foreclosures, despite earlier warnings to the contrary. As a result the house plenary, which was scheduled to convene on September 1st in order to discuss a series of draft bills, was postponed until a further notice. This provides parties more time with more time to reach a consensus in order to secure a parliamentary majority.

The proposed legislation speeds up the process of repossession of mortgaged property. Although primary residences are exempt from the law's provisions until January 1, 2015, the bill raised concerns among opposition parties AKEL, DIKO and EDEK, who demand the implementation of the foreclosure bill's provision to coincide with implementation of the insolvency framework. Another critical demand referred to in the settlement is of any outstanding debt and releasing the debtor and any guarantors following the foreclosure. In any case, amendments will still require the Troika's approval, which does not want the bill to be watered down to such an extent that banks cannot move on delinquent mortgagors, particularly large debtors. One of the amendments already included in the bill is that banks will be able to buy a foreclosed property after the lapse of 12 months, at 100% of its appraised value.

The troika has allowed an extension of a week for the plenum to vote for the bill. In order for Cyprus to receive the next tranche of interna-

tional assistance and avoid potentially devastating consequences, the bill needs to be approved before the next Eurogroup meeting in mid-September.

An important development occurred in the Bank of Cyprus (BoC), whose shareholders overwhelmingly approved on August 28 the €1 billion capital increase, the biggest foreign direct investment in the island's history. Just 87% of the present shareholders voted in favour of the move. The approval marked the start of a new era for the bank. The capital increase bolsters the bank's capital ahead of EU wide stress tests and accelerates its recovery. Meanwhile, the bank's old shareholders opposed the move as it would further dilute their shareholding. However, the Nicosia district court rejected their request to prevent the increase.

A report released on August 6 by Moody's rating agency stated that Cyprus contains an elevated risk of default in the medium term despite the island's good performance in the bailout adjustment programme. The rating agency noted that the main challenge facing the Cypriot authorities was the high percentage of non-performing loans.

BoC and Hellenic Bank announced extra measures to support customers who are facing difficulties due to the recession. The measures, which are designed to ease loan payments, concern unemployed people, low income families and small business. According to the BoC measures, unemployed individuals who have

housing loans and where the value of the house does not exceed €250.000 can apply for a grace period of 15 months, until the start of 2016, during which they can pay €10 per month. This can be extended for additional 12 months in case the customer remains unemployed. Clients with housing loans who lost over 25% of their family income and where their house value does not exceed €250.000 can request a 15 month grace period during which they can pay €30 per month. This can be extended for another 12 months with customers paying the interest rate. Small enterprises with business loans whose turnover has been reduced by over 25% compared to 2012 are also eligible for a grace period of 15 months. The value of their premises should not exceed €250.000 and their monthly instalment will be €30 per month.

The Federal Bank Of Middle East (FBME) issued a statement on August 30 questioning the Central Bank's intentions and challenging the way it has taken control of the bank's operations after the US Treasury described the bank as a primary money laundering concern via a report issued in July. FBME denied the allegations saying the US Treasury had compiled the report without its input.

Almost 20 companies responded to the call of state-owned Cyprus Airways non-binding expressions of interest. Amongst the airlines are Aegean Airlines, Ryanair, Romanian Blue Air and the Israeli company Arkia. After having stated that it was not particularly interested, Ryanair's owner O'Leary proposed that it could use

Cyprus as a hub for flights going into the Far East. Cyprus Airways is facing serious financial difficulties and has recently sold a number of assets. The airline is also at the centre of an investigation by the European Commission as to whether the Cyprus government had violated state aid rules when it passed on a rescue package of 73 million Euros in 2012.

Domestic Developments

The Cyprus government has come under heavy criticism over its immigration policies when six immigrants at the Menoyia Detention Center climbed on the roof in order to demonstrate against their prolonged detention. The immigrants, five Iranians and one Afghan, had been held for 18 months and were set for deportation. There have been previous incidents where prisoners protested against their prolonged detention. In June, Ombudswoman Eliza Savvidou had warned that the detention centre had been turned into a maximum security prison, referring to a number of human rights violations and cases of abuse.

Makarios Drousiotis, an advisor to President Anastasiades, was at the centre of severe criticism from the Russian ambassador after the publication of his book 'The Invasion and the Big Powers: the Realpolitik of the US and Duplicity of the USSR'. Drousiotis is critically investigating the role of the US and questions whether the USSR has always been a staunch ally, as it is commonly portrayed. The Russian ambassador characterizes the book as being

'scientifically low-level and politically unacceptable'. Furthermore, Drousiotis, a well-known journalist and author, is accused by the ambassador of being an amateur. Anastasiades has since been trying to reassure the Russian embassy that the author's findings are not expressing his views and did not 'affect the foreign policy of Cyprus towards traditional allies, one of which is Russia.'

Foreign Policy

The Akrotiri airbase was used by British forces in response to the Iraq crisis. On August 14, four Chinook helicopters and three Tornado jets arrived at the base. Their mission was to provide intelligence by flying over the crisis area, to facilitate the delivery of UK aid to Yazidi people, who were driven into the Sinjar mountain range in their attempt to flee Islamic State (IS) fighters. The arrival of the Chinooks gave speculation that an evacuation was imminent.

During the informal meeting of EU foreign ministers in Milan on August 29, Foreign minister, Ioannis Kasoulides opposed the prospect of new sanctions by the EU against Russia. Kasoulides argued that the methods of sanctions did not appear to have achieved the required results and proposed EU efforts in relation to the Ukrainian crises to focus on mediation aimed at securing a ceasefire. The EU and US announced sanctions against Russia for the end of July, targeting its energy, banking and defence sectors. Previously the EU had

imposed sanctions only against certain individuals and certain organizations accused of direct involvement in threatening Ukraine. Cyprus is particularly concerned about sanctions against Russia since it has traditionally had close links with Moscow as a protector of its interest at the Security Council. In the context of the Cyprus problem, the island is highly dependent on Russian capital and Russian tourists are making up for the second largest group of visitors.

4. Turkish Cypriots

Economic Developments

The number of people and companies placed on the 'TRNC'² Central Bank's blacklist for bounced cheques, reached 18,119 in the 2008-2013 period. The figure was 3,662 in the period between 2002 and 2007. In the first four months of this year alone 930 real and legal persons were added to the list. The figure for

² The Turkish Republic of Northern Cyprus (TRNC) is only recognised by the Republic of Turkey. While for Turkey and the Turkish Cypriots, Dervis Eroglu 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 RoC in the first six months of 2014 was 434.

According to the data provided by the TRNC Central Bank the profits of the banking sector in the first six months of 2014 rose by 8.88 per cent compared with the same period a year earlier and reached TL 117,7 million (€41,3 million).

Foreign students contributed 1,8 billion Turkish Lira to the Turkish Cypriot economy in 2013, according to the "2013 TRNC Economic Situation Report," which was published by the Board of Financial Assistance under the Turkish Embassy in Nicosia. 50,068 foreign students are enrolled in the Turkish Cypriot universities of which 68 per cent are from Turkey the report said.

Domestic Developments

Although the presidential election is still months away, speculations about possible candidates were high on the agenda in the month of August.

Mustafa Akıncı, the former mayor of Nicosia who had also served as deputy prime minister was the first to officially announce his candidacy on August 20. He will run as an independent. In the TV program where he announced his candidacy, Akıncı said that the Cyprus problem could be solved if both communities feel the 'need' to solve the problem. "What made the Nicosia sewage system a success...was mutual need," Akıncı said and added that the natural

gas can create a similar dynamic for cooperation between the two communities contributing to the solution of the Cyprus problem. Furthermore, he pointed out that unlike the current position of the Turkish Cypriot negotiation team, he was in favour of implementation of confidence building measures such as the opening of the fenced-off city of Varosha in exchange for the opening of the Famagusta port to international trade.

Cemal Özyiğit, the chairman of the Social Democratic Party (TDP) announced that his party would support Mustafa Akıncı's candidacy. Stating that they consider Akıncı to be the right candidate to support, Özyiğit said that Akıncı was among the founders of their party and a person who was admired by the people.

Hüseyin Özgürkün, the leader of the main opposition National Unity Party (UBP) said that President Eroğlu's decision whether or not to run for re-election would determine the party's course of action and added that his party would be supporting Eroğlu should he decide to run for a second term. Eroğlu said he would not make any statements on this issue before November.

The biggest surprise came on the last day of August when the former Turkish Cypriot leader, Mehmet Ali Talat announced via Twitter that he had let the secretary general of the Republican Turkish Party-United Forces (CTP-BG) know that he was not going to run for the president. The CTP-BG's nomination process was still in pro-

gress when Talat withdrew. A few days before announcing his decision Talat had publicly complained that the CTP-BG's nomination process was taking too long. Evaluating Talat's decision, Kutlay Erk, the secretary general of the CTP-BG implied that the party still could decide to nominate Talat.

Earlier in the month, the CTP-BG, which had found itself in turmoil after the local elections lost one more seat in the parliament when Abbas Sinay, a Kyrenia deputy, announced his resignation from the parliament citing the problems within the party. Sinay did not resign from his party. Reportedly, this was the first time a Turkish Cypriot member of parliament resigned from the assembly. After Sinay's resignation, the number of CTP-BG seats in the parliament fell to 20.

On August 20, Turkish Cypriot leader Derviş Eroğlu briefed the People's Council, which is made up of representatives of civil society organizations and trade unions on the latest stage reached in the negotiation process. Eroğlu said that he deemed necessary to inform the Council following the UN Secretary General Ban Ki Moon's decision to appoint a new special advisor. Pointing out that the negotiations had failed to move forward over the past few months due to the Greek Cypriots refusal to accept past convergences, Eroğlu said that the Turkish Cypriot side opposed the idea of starting the negotiations from scratch.

According to the Turkish Supreme Election

Board, of the 92,171 Turkish nationals resident in Cyprus eligible to vote in the Turkish presidential election, only 11,144 (12.09%) cast their votes. 6,058 of these votes went to Erdoğan while Ekmeleddin İhsanoğlu and Selahattin Demirtaş received 4,089 and 897 votes respectively. Overall, only 232,795 of 2,798,726 registered voters abroad turned up to vote. The online appointment requirement and the inadequate number of voting locations are reportedly the main reasons behind the reluctance of Turkish expats to cast their votes.

Evaluating the result of the presidential election in Turkey, Talat said that he did not expect any change in Turkey's Cyprus policy after Erdoğan's election. Turkey's Cyprus policy has changed in 2002 when the Justice and Development Party (AKP) came to power and that Erdoğan would continue to follow this policy, he added.

5. FES Cyprus Events

October

September

Thursday, 18. September 2014 4:30-6:00 pm

German Embassy / Goethe Institut / FES

Germany and Cyprus in a Changing EU

Discussion with the German Minister of State for Europe, Mr. Michael Roth and the Members of the German Parliament, Mr. Manuel Sarrazin and Mr. Heinz-Joachim Barchmann

Goethe-Institut Cyprus, Nicosia
(in the UN buffer zone next to Ledra Palace)
Open to the public



Friday 26. September 2014 6:30 pm - 10 pm

Saturday 27. September 2014 9:30 am - 8 pm

GOETHE / UCY / FES

Conference

The First World War and Cyprus

University of Cyprus, Nicosia
(Old Campus, Great Hall, Kallipoleos Str.)
Open to the Public



Thursday 23. October 2014

PCC / FES

Conference

Economic Crisis and Democratic Deficits in Southern Europe (2009-2014)

Home for Cooperation (in the UN Buffer Zone)

Nicosia
Open to the Public



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