

Cyprus and the EU: Appraisal and Challenges

Jean-François DREVET and Andreas THEOPHANOUS

Foreword by Andreas Theophanous

Postword by Aziliz Gouez

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Cyprus and the EU: Appraisal and Challenges

The European Union and the Cyprus Issue

Jean-François Drevet

The Republic of Cyprus in perspective:
the record and future challenges

Andreas Theophanous

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The views expressed in this publication are those of the authors.



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Foreword

by Andreas Theophanous

For any small Member State the assumption of the rotating Presidency of the Council of the EU, for the first time, is of profound importance. For Cyprus this acquires additional significance given its special circumstances and the challenges that it has to address. It is not only the economic crisis and the fact that it had to seek support from the European Stability Mechanism. Above all it is the continued occupation of its northern part by Turkey and the fact that Ankara does not recognise the right of the Republic of Cyprus to exist. We should remember that Turkey itself, candidate for accession, is more than 80 times bigger than Cyprus both geographically and in terms of population. Be that as it may, the Republic of Cyprus aspires to work in a way that its EU Presidency will prove to be a success.

Clearly, Cyprus does not wish to be associated only with problems; on the contrary, it wishes to play a constructive role in the region and to advance broader objectives of the EU. Especially at this very sensitive period when initiatives are required to promote networks of cooperation, economic growth and

tolerance in the Eastern Mediterranean and the Middle East, Cyprus can utilise its geographical position as well as its historical relationships in positive ways.

Cyprus is expected to rise to the occasion and act in ways which would advance this network of multiple objectives and interests. The pressing challenge is for domestic reforms to be pushed through to facilitate an effective and efficient state structure. This will be of utmost importance for the EU as well.

It is also essential to understand that the Cyprus question is also a major European issue. It is problematic for the credibility of the EU when a candidate country and a major partner, Turkey, occupies a substantial part of the territory of a member country. And it is equally negative for the Union when Turkey does not recognise the right of that Member State to exist. This may also be indicative of the weakness of the Union to become a global political power.

Two major issues often raised in discussions about the future of the EU are credibility and solidarity. Cyprus is certainly a place in which these two objectives and principles are tested. When Cyprus applied for membership of the EU there was great euphoria. Over time many Cypriots have become skeptical about the role of the EU in relation to the Cyprus question as well as to its potential as an international player.

Last but not least it is essential to emphasize that one of the pressing questions for the entire international community is the issue of governance in biethnic and multiethnic States and societies. Consequently, the outcome in Cyprus has implications which extend much beyond the territorial boundaries of this island State. Indeed, it is possible to have an integrated political, economic and social structure in Cyprus which encourages the peaceful coexistence and creative cooperation of Greek Cypriot Christians, Turkish Cypriot Moslems as well as other ethnic and religious groups. Such a development could very well serve regional, European and international objectives.

Summary of Jean-François Drevet's contribution

Contrary to what had been hoped for, **the accession of Cyprus to the European Union in May 2004 has not paved the way for its reunification.** After the rejection of the Annan Plan, which provided for important exemptions from Community law, **negotiations between Greek and Turkish Cypriots came to nothing.** Henceforth the Union is involved in managing the problems of a divided island part of which is occupied by another country, a unique situation in Europe since the end of the Cold War.

In order to become a Member State like any other, Cyprus must both recover the full exercise of sovereignty and adopt a feasible reunification plan.

1. Recovering the full exercise of sovereignty

- The north of the island continues to be **occupied by 35,000 heavily armed Turkish soldiers.**
- Furthermore, **its sovereignty is limited by “unequal treaties”** imposed at the time of its independence in 1960 which was guar-

anteed by Greece, the United Kingdom and Turkey but included the right of intervention for each of these three powers.

- In addition to these constraints, there is the **presence of two British bases**, held in full sovereignty with various facilities, over which the Cypriot government has no scrutiny.

2. Adopting a feasible reunification plan

- Current negotiations on the reunification project have defined the **main lines of a political compromise**: the Federal Republic of Cyprus will have a rotating presidency, two elected assemblies based on the German model and a Supreme Court.
- Even though the implementation of Community acquis, currently suspended in the North, is involved in the reunification, the **economic conditions for reunification remain problematic**.
- The Cypriots must also **solve the problem of despoilments of property rights** following the ethnic cleansing carried out by the Turkish Army in 1974 and **define the conditions of residency in accordance with Community law**.
- Finally, the **discovery of a major offshore natural gas field south of Cyprus** will **contribute to a re-evaluation of the geo-political position of the island** and be a **determining factor in financing the reunification**.

Summary of Andreas Theophanous's contribution

Fifty-two years after its establishment in 1960 and just eight years after membership to the European Union (EU), the Republic of Cyprus faces multidimensional challenges. Since the Turkish invasion of 1974, 38% of the territory of Cyprus remains under occupation. There was considerable displacement in 1974 but subsequently the economy embarked on a path of remarkable growth.

Cyprus is currently engaged in a peaceful liberation struggle (against Turkey) which is more reminiscent of a 19th century context (as it also includes an interethnic conflict) **while having to tackle the problems of the 21st century.** These include overcoming the effects of the global economic crisis, moving toward a new economic paradigm, dealing with the challenges of a modern society within the context of a multicultural Europe, addressing illegal immigration, improving the level of education, of health services and more recently the question of exploitation of its newfound energy resources. However, **the most important challenge after accession**

to the EU and the introduction of the euro is the reestablishment of the country's territorial integrity.

1. The contribution describes the **historical context of the birth of the Republic of Cyprus in 1960** following the anti-colonial struggle against British rule. Emphasis is given on the initial intercommunal and intra-communal strife and on foreign interventions culminating with the Turkish invasion of 1974. There is also a brief description of socio-economic developments in this first period.
2. The contribution also examines the **economic and geopolitical situation after 1974**. It explains the reasons for the failure to reach a negotiated solution to the Cyprus problem despite repeated UN initiatives. There is particular reference to the failed Annan Plan and the accompanying referenda on 24 April 2004, and to Cyprus accession to the EU. The paper also assesses the disastrous socioeconomic effects of the 1974 Turkish invasion, the recovery and the economic miracle that followed.
3. The **current strategic objectives of the Republic of Cyprus for reunification, for managing the economic challenges and the development of the energy sector** following the discovery of natural gas in its Exclusive Economic Zone, are also addressed. Despite past failures, the **membership of the Republic of Cyprus in the EU combined with Turkey's desire to join the EU or, even, achieve a strategic partnership agreement, provides a framework for a breakthrough.**

In an era of multiple identities, **the EU can provide the context for a common European identity that would make a unified Cyprus work.** At the same time Greek Cypriots and Turkish Cypriots can also nurture their own ethnic and cultural identities. In this respect the EU may play a significant contextualizing role even though it has not yet acquired its full potential in addressing more effectively major regional and international problems.

Given the years of unsuccessful attempts for a comprehensive settlement it is important to consider other possibilities: from the bizonal bicommunal federal model in which power is essentially concentrated in two constituent States to an integrationalist model of functional federation. For this scenario to materialise, however, in addition to the consent of the Turkish Cypriot side, it is of utmost importance that Turkey finally recognises the right of the Republic of Cyprus to exist.

Cyprus has to also **address new economic challenges** including the risks associated with the oversized banking sector which is largely exposed to Greece. The banking crisis following Greece's debt restructuring and the internal macroeconomic imbalances led Cyprus to apply to the European Stability Mechanism in June 2012. It is also essential that Cyprus also moves toward a paradigm shift. Within this framework fiscal rationalisation is required as well as moving to new engines of growth. The emerging energy sector constitutes a remarkable challenge involving both economic as well as political dimensions. It is important that Cyprus positions itself in ways that allow it to play an enhanced role in the region and the EU.

Assumption of the EU Presidency in July 2012 is a huge stepping-stone towards the Republic's 'adulthood'. Under difficult circumstances it helps re-confirm its sovereignty and status. The government has repeatedly stated that the Cyprus problem will not interfere in the execution of the Presidency and that it shall handle the operation in particular issues pertaining to Turkey with objectivity. Cyprus Presidency will deal with the negotiations on the Multiannual Financial Framework, the Europe 2020 Strategy, the Common European Asylum System, the Integrated Maritime Policy and the promotion of jobs, especially for young people. Cyprus is fully aware, that if handled efficiently, the EU Presidency will provide credibility and future gains for its own objectives.

Part 1

The European Union and the Cyprus Issue

Jean-François DREVET

Introduction

The Republic of Cyprus has been holding the rotating Presidency of the European Union since 1 July 2012. Eight years after its accession, among the 12 new members having joined the EU in 2004-2007, it has taken on the implementation of Community legislation without any difficulty.

And yet, it is a deeply divided country: while all Cypriots, whether they live to the north or the south of the Green Line,¹ are European citizens, the application of the Community acquis is suspended in the North, self-declared as the ‘Turkish Republic of Northern Cyprus’ in violation of the United Nations Security Council resolutions and is only recognised by Turkey.

1. A buffer zone established by the United Nations in August 1974 following the Turkish invasion.

DIVISION OF THE TERRITORY AND OF THE POPULATION OF CYPRUS

	SURFACE AREA		POPULATION	
	km ²	CYP = 100%	INHABITANTS	CYP = 100%
OCCUPIED AREA (NORTH) ²	3,254	35.2	257,000	24.8
GOVERNMENT AREA (SOUTH) ³	5,497	59.4	773,000	74.5
GREEN LINE (BUFFER ZONE)	246	2.7		
UK BASE AREAS (SBAs)	255	2.8	7,500	0.7
TOTAL CYPRUS	9,252	100.0	1,037,500	100.0

SOURCE: GOVERNMENT OF CYPRUS.

This situation, which recalls that of Germany when the Treaty of Rome⁴ was signed, causes numerous complications for the EU institutions that have to manage aid for the Turkish Cypriot community under very special conditions, and organise exchanges across the Green Line, which has become *de facto* one of the external borders of the EU. For EU foreign policy, the division of Cyprus is also a major problem, decisively influencing negotiations on Turkey's accession and in turn, affecting EU influence in the eastern Mediterranean basin.

In this contribution, which does not claim to review the entire Cyprus issue, only the two central issues that directly impact European integration will be dealt with:

- Concerning the past: did the EU make a mistake by accepting the accession of a divided island? How can it be explained that this crucial point was evaded during the negotiations and what are the reasons for the failure of the Annan Plan, even though it had been strongly supported at European level?

2. 'Turkish Republic of Northern Cyprus, TRNC'.

3. *De jure*, the Republic of Cyprus covers the entire territory of the island save for the British Sovereign Base Areas, but its sovereignty is *de facto* limited to the South.

4. The Federal Republic of Germany was supposed to speak on behalf of all of Germany, whereas its Western partners did not recognise the GDR (German Democratic Republic) deemed to be an area occupied by the USSR.

- Concerning the future, in the event of reunification, what changes need to be made to the international status of the island and how can a new State be built in the context of EU membership and the respect of the Community acquis?

1. The Past: the Accession of Cyprus, an EU Mistake?

1.1. Negotiating Accession

Many observers wondered if it would not have been wiser to leave the island outside the EU, as long as it had not managed to overcome its problem.⁵ In fact, the European Commission and then the Council were relatively quick to admit that making reunification a precondition would have led to the indefinite adjournment of the accession, given Turkey's attitude. It was implicitly recognised that the island was not only divided, but that it was also occupied. Refusing Cyprus amounted to rewarding the aggressor and would have given a third country, i.e. Turkey, the right of veto on enlargement of the European Union, which, according to the Treaty, only a Member State is allowed to do.

5. This issue has been dealt with in stages: on a proposal from the Commission, the European Council took a stance in 1995 (acceptance of the Cypriot candidacy), 1997 (opening of accession negotiations) and 2002 (completion of negotiations and signing of the Accession Treaty).

It therefore appeared logical to grant the island's request, by considering that launching the accession procedure would also facilitate a solution, given Turkey's willingness to become a candidate. This gamble was not unrealistic: one could have thought that Ankara would find in it an honourable way of both releasing it from a problem that has isolated the country for decades and bringing it closer to the EU.

If Cyprus had been the only country to negotiate its accession, it could be presumed that the Member States that did not want a divided island would have set preconditions. But in the process that began with six countries in 1998, then in the 'race' that placed the 12 candidates in competition in 2000, it proved more difficult, as the Cypriot candidate always arrived top of the league in the number of chapters completed. Lastly, as the Accession Treaty is unique, would it have been possible to ask the Greek Parliament to ratify an agreement that would not have included the best prepared candidate? For this reason, in December 1999, the Helsinki Summit decided that Cyprus should enter the EU, even in the absence of a political settlement.⁶

The inaction of the Turkish side and the unreasonable demands of the 'president' of Northern Cyprus,⁷ who refused contact with the EU by calling for the prior recognition of his pseudo-State, also played a role. Not only did Turkey not want balanced negotiations on Cyprus, but it did not understand what the 'accession method' resulting from the Copenhagen criteria meant for it. The end result, i.e. the entry into the EU of an island ruled by a government that it alone refuses to recognise, and the adjournment of its application, is partly its own doing.

6. *Presidency Conclusions of the Helsinki European Council*, December 1999, Point 9(b): 'The European Council underlines that a political settlement will facilitate the accession of Cyprus to the European Union. If no settlement has been reached by the completion of accession negotiations, the Council's decision on accession will be made without the above being a precondition.'

7. Rauf Denktaş 'simply did not particularly want a settlement of the Cyprus problem or at least one short of a wholesale capitulation by the Greek Cypriots'. (cited by David Hannay, p. 18 in *Cyprus, The Search for a Solution*, I.B. Tauris, London & New York, 2007, 256 pp.).

1.2. Failure of the Annan Plan

In addition, the hope of reaching a political solution remained up until the days preceding the accession.

In the early 2000s, the United Nations relaunched negotiations between the two Cypriot communities, with the support of London and Washington: the two capitals wanted a solution to the division of Cyprus, paving the way for the accession of Turkey, which they needed in order to invade Iraq.

In an ideal world, the United Nations mandate would have been directly drawn from the resolutions of the General Assembly and the Security Council, by demanding the restoration of international order in Cyprus. Given the current balance of power on the ground, it is obvious that Turkey (or its Turkish Cypriot protégés) is not ready to enter discussions on this basis. If Turkey accepts to negotiate, it will only be with a view to, legalising the *fait accompli* or something not far off. The United Nations, unable to enforce respect for international law, must lean towards a solution that is acceptable for the hardliners on the Turkish side. The successive versions of the Annan Plan were therefore modified in order to satisfy the growing number of their demands. But by going too far in concessions to Turkey, the Plan has become unacceptable for the Greeks.

The EU, who does not have the competence to judge the internal aspects of a political agreement, had specified in advance that an agreement between the two communities should be carried out ‘in line with the principles on which the European Union is founded’,⁸ which involved implementing the Community *acquis*, already accepted by the legal government in accession negotiations. In fact, derogations from the *acquis* are possible. According

8. *Presidency Conclusions of the Seville European Council*, June 2002: ‘The European Union would accommodate the terms of such a comprehensive settlement in the Treaty of Accession in line with the principles on which the European Union is founded: as a Member State, Cyprus will have to speak with a single voice and ensure proper application of European Union law.’

to legal experts from the British Foreign and Commonwealth Office, if these derogations exist prior to accession, they shall become part of EU primary law, which would make them unassailable. The Commission accepts this, in principle, as it wishes to avoid one of the EU's main goals, i.e. its enlargement to a dozen new members, from being negatively affected by the Cyprus problem.

Contradictory to the European principles of freedom of establishment and of non-discrimination, UN negotiators deem it vital to limit Greek Cypriots' ability to freely use their property in the North,⁹ as well as their right of residence (so that they would not become a majority there once again). At worst, any EU citizen would be authorised to settle there, save Greek Cypriots, including those who are still legal owners there.

In addition, the fragile nature of the political and economic reunification framework is problematic. According to the independent experts' report,¹⁰ restrictions on the four freedoms are said to have diminished Cyprus' capacity for growth and prevented the North from catching up, which nevertheless remains a priority. The report mentions restrictions to trans-border commuters and a blanket exemption from Single Market rules in favour of the North, as factors likely to negatively impact its economic development. Even more serious is the fact that no trustworthy mechanism has been planned in order to manage possible infringements to Community legislation:¹¹ the federal government of Cyprus, which should be accountable for this before the Commission and eventually the EU Court of Justice, has not received the necessary powers to compel the constituent States¹² to respect the *acquis*.

9. Before the Turkish invasion of 1974, 80% of private property in the North belonged to the Greeks.

10. *Economic Aspects of the Annan Plan for the Solution of the Cyprus Problem*, Report to the Government of the Republic of Cyprus by Barry Eichengreen, Riccardo Faini, Jürgen von Hagen and Charles Wyplosz, 17 February 2004, 73 pp.

11. 'Federal enforcement of EU rules will be weak at best.', *ibid*.

12. The Cypriot, Greek and Turkish Federated States.

More globally, the experts deem that the federal level will not have the competences and means necessary to operate: it is being assigned huge budgetary responsibilities (compensation for loss of property, funding of the United Nations force) without providing it with a budget equal to its responsibilities, in other terms, no budgetary planning, unpredictable resources and risks of tax competition.

For Claire Palley,¹³ the Annan Plan is ‘an extraordinary abandonment of basic principles by the most responsible of Commissioners’ and a violation of the Seville conclusions. By not taking stock of lessons from the past, particularly the failure of the 1960 Constitution, the authors of the plan gave the EU a poisoned chalice: it was not necessary to have major institutional experience to foresee the insurmountable differences between both parts of the island, which would have disrupted the functioning of the EU, where the voice of each country counts.

Lastly, several provisions introduced into the final version of the plan, at the behest of Turkey, worsen the limitations of sovereignty of the 1960 Treaties. By giving a prior commitment to supporting the Turkish candidacy, by making the exploitation of oil reserves on the continental shelf subject to the Ankara Agreement and by giving up the use of the island for military operations without the consent of the guaranteeing powers, Cyprus would have been a second class Member State, a sort of ‘Trojan Horse’¹⁴ for Turkey within the EU.

Evidently, these limitations, which have nothing to do with resolving the problem of the island, also exist for the Community policies. They provide advantages, possibly to the detriment of the EU, to the so-called ‘vital

13. Claire Palley, *An International Relations Debacle: the UN Secretary General's Mission of Good Offices in Cyprus 1999-2004*, Hart Publishing, Oxford & Portland Oregon 2005, 395 pp. Translation of quotation: *Notre Europe*.

14. Andreas D. Mavroyiannis, ‘Cyprus and Europe hostages to Turkey’, published in the daily newspaper *Kathimerini*, in Athens, 18 April 2004, 8 pp.

interests' of Turkey, in such a way as to have a long-term impact on EU foreign policy in the Eastern Mediterranean Basin.

THE RESULTS OF THE REFERENDUM ON THE ANNAN PLAN HELD ON 24 APRIL 2004

AS A PERCENTAGE	REGISTERED	VOTERS	VOTES CAST	YES	No
SOUTH	77.0	89.3	77.6	24.2	75.8
NORTH	23.0	84.4	22.4	64.9	35.1
CYPRUS	100.0	88.1	100.0	33.3	66.7

SOURCE: CLAIRE PALLEY, *OP. CIT.*

Universal suffrage decided the matter. As expected, the island joined the EU: all Cypriots became European citizens (including Turkish Cypriots), but the implementation of the Community *acquis* is 'suspended' in the North, which prompted the belief that the Greeks had been unfairly rewarded, despite their rejection of the Annan Plan, and the Turks, who had accepted it, were unfairly penalised. Between those who deem that a bad agreement would have been better than no agreement at all, and those who believe that it was possible to do much better, the debate continues.

Without entering into the whys and wherefores that led two-thirds of Cypriots to reject the Annan Plan, it was not a good deal from the point of view of respect for Community law. That is why a certain number of European experts, initially in favour of the plan, changed their minds after having examined it and are today relieved that it was rejected.

Nevertheless, many observers consider that in the absence of an agreement, all Cypriots lose out: having rejected this one because it was bad is no guarantee against another one, which could be worse. The history of Cyprus in the 20th century is full of examples of this. Seeking a solution must therefore remain a priority.

2. The Future: the Feasibility of a Reunification within the European Framework

Since 2008, a process of inter-Cypriot negotiation has been ongoing and continuously led by the United Nations, which retains an important role in the discussions, in the management of almost 1,000 Blue Helmets and in the implementation of an aid programme (partly financed by the EU). However, talks have not led to any tangible results.

Reunification of the island remains the explicit objective of the international community. Making Cyprus a fully-fledged Member State implies establishing a new Constitution, putting an end to a de facto separation that goes back to 1964¹⁵ and revising the international agreements imposed on the island at the time of its independence. Indeed, the Cypriots did not participate in the Zurich-London Agreements,¹⁶ which set forth the guidelines for its constitutional framework (in the form of a 27-point agreement

15. Following the withdrawal of Turkish Cypriots from the bi-communal administration established by the 1960 Constitution.

16. Signed in February 1959 by the United Kingdom, Greece and Turkey.

laying the foundations of the Republic) and the foundations of the Treaties of Guarantee and Alliance that strongly limit its international sovereignty.

2.1. The Limitations of Sovereignty

Contrary to the other EU members, the Republic of Cyprus is affected by three limitations: the 1960 Treaties, the occupation of part of the island for almost 40 years by a foreign power and the existence of two military bases (Sovereign Base Areas, SBAs) held in full sovereignty by the United Kingdom.

2.1.1. Unequal Treaties

The independence granted by the British coloniser was restricted by the obligation made to the new Republic to sign Treaties of Guarantee and Alliance with the United Kingdom, Greece and Turkey, comprising the right of intervention of these powers and the permanent stationing of an explicitly limited number of armed forces.

There is no example of independence that is so strongly guaranteed on paper and so little respected on the ground. In 1974, each of these powers violated the Treaty. With Washington's blessing,¹⁷ Greek colonels staged a coup to annex the island to Greece. Then came the Turkish invasion, which is the origin of the *faits accomplis* of the military occupation and the ethnic cleansing. By not preventing Athens, and then Ankara from acting, the guarantee was not respected either by the British.¹⁸ None of the three powers was concerned about 're-establishing the state of affairs created by the Treaty'¹⁹ which should have been their sole objective.

17. See Michael Attalides, *Cyprus, Nationalism and International Politics*, Q Press Ltd, Edimbourg, 1979, 226 pp.

18. 'Britain had a legal right, a moral obligation and the military capacity to intervene in Cyprus during July, August 1974. It did not intervene for reasons which the Government refuses to give.' (Report of the Parliamentary Select Committee on Foreign Affairs on Cyprus, published 8 April 1976).

19. Article 4 of the [Treaty of Guarantee](#) (16 August 1960): 'In the event of a breach of the provisions of the

In fact, Cyprus is subjected to a sort of neo-Brezhnev Doctrine of limited sovereignty, which has no justification in the European order, where Member States are legally sovereign and thus equal. Logic dictates that, independently of the violations to the Treaty of Guarantee, it has no reason for being in a Union founded on the rule of law, where solidarity between Member States is laid down in the Treaties.

Repeal of these ‘Unequal Treaties’ is not necessary, however: the State Treaty of 1955, which re-established Austria’s independence, also has some limitations that theoretically remain in force, but it is no longer a question of referring to them. A declaration from the guaranteeing powers indicating that they will only use their prerogatives under the UN Charter, could avoid further breaches.

2.1.2. Turkish Occupation

Almost 40 years after its invasion, Turkey’s supremacy in Cyprus is upheld through several means. Firstly, it brings all the weight of its military occupation to bear. Secondly, it closely controls the Northern authorities, which the European Court of Human Rights in Strasbourg considers as a ‘subordinate local administration of the respondent State’, i.e. Turkey.²⁰ Lastly, in the long term, it is transforming the identity of the island by encouraging Turkish immigration, also considered as illegal, which tends to make Turkish Cypriots ‘a minority within the minority’.²¹

present Treaty, Greece, Turkey and the United Kingdom undertake to consult together with respect to the representations or measures necessary to ensure observance of those provisions. In so far as common or concerted action may not prove possible, each of the three guaranteeing Powers reserves the right to take action with the sole aim of re-establishing the state of affairs created by the present Treaty.’

20. ECHR, *Case of Cyprus v. Turkey*, 25781/94, Judgment of 10 May 2001

21. Based on the 2006 population census, Mete Hatay obtains a rate of 46% of immigrant population (*‘Is the Turkish Cypriot population shrinking? An Overview of the Ethno-Demography of Cyprus in the Light of the Preliminary Results of the 2006 Turkish-Cypriot Census’*, International Peace Research Institute (PRIO), Oslo 2007, 65 pp.).

In international inner sanctums, it justifies its presence using two arguments: the need to protect the Turkish community, which can only be ensured through permanent military presence and the safety of Anatolia against a possible foreign threat.

The Ankara government never fails to recall the fact that the very existence of the Turkish community in Cyprus has been threatened, since the early 1950s, up until its intervention in 1974, therefore justified. It considers that as the Turkish minority is demographically and economically surpassed by the Greeks, it cannot do without the protection that Turkey has the sacred duty of providing it as 'motherland' (*ana vatan*), for whom the Turkish Cypriots would be the 'child-land' (*yavru vatan*).

In Europe, defence of national minorities, particularly when a large country puts pressure on a small one, awakens tragic memories: nobody has forgotten how Nazi Germany manipulated Germanic minorities in the countries of Central Europe and what became of the Czechoslovak State, in the name of defending the Sudeten Germans.

In order to avoid these problems or to reduce their magnitude, the EU requested that the new Member States sign mutual recognition agreements concerning their borders and respect for minorities, which put an end to a major part of the disputes inherited from the past. In addition, the rights of minority groups are guaranteed by conventions established by the Council of Europe. In practice, apart from a few exceptions, the minorities in Europe benefit from numerous advantages: practice of regional languages, administrative autonomy, employment guaranteed in administration, etc.

In general terms, the Member States refrain from intervening in the minority issues of other countries. Do France, the Netherlands or Germany demand the right to meddle in the affairs of the Belgians who speak their language,

just like Turkey is demanding of Cyprus? By accepting the jurisdiction of the European Court of Human Rights, Ankara is admitting that these problems should be dealt with under the rule of law. It implicitly recognises that the action of international organisations is capable of protecting the rights of Turkish Cypriots. Moreover, EU support for a solution that would probably grant them far greater rights than those of other European minorities will be an additional guarantee.

The Turkish claim for the permanent right of intervention in Cyprus is therefore an anachronism that must end. By no longer interfering in the island's affairs, Ankara would also escape the suspicion, after a possible reunification, of wanting to maintain its influence in order to reach the ultimate goal that it has proclaimed for so long, that of the definitive division of the island with annexation of its Northern part.

Since the Turkish Cypriot community started distancing itself from Ankara,²² the Ankara government has once again put forward the geopolitical argument: it would be of 'vital interest' for Turkey to maintain troops in Cyprus, as an essential condition for its safety,²³ in order to prevent a hostile power from setting up so close to Anatolia. In support of this theory, the British example is given: if the island is deemed to be strategically vital to the defence of the United Kingdom, even though it is over 5,000 km away, why would it not be to that of Turkey?

Here again, the notion of vital interest brings back tragic memories: it was in the 'vital interest' of Germany to conquer the 'Dantzig Corridor', that of France to occupy the left bank of the Rhine and of Russia to control the Baltic ports.

22. See the demonstrations of 2003 (that led to the ousting of Denktash) and of 2011.

23. '...Even if there were no Muslim Turks in Cyprus, Turkey is obliged to have a Cyprus issue. No country can remain indifferent towards such an island located in the heart of that vital area.' (Ahmet Davutoğlu, *Strategic Depth*, 2001, p. 179).

Would the very existence of the island be a mortal threat for the safety of Anatolia? We could have believed so at the time of the Cold War. Today, nobody seriously believes that Cyprus could be a threat to Turkey, especially since it is part of the EU. Less than 100 km from Florida, the Americans themselves have put up with a hostile and dictatorial regime for half a century, which is not the case of Cyprus.

In the name of a rather subjective encirclement complex,²⁴ Turkey feels that it is essential to maintain military forces on a territory that does not belong to it, but which is part of an arbitrarily-determined perimeter. On these grounds, should France set up a garrison in the Channel Islands and Italy in Corsica? Russia, who would have stronger arguments (defence of Kaliningrad, larger numbers of Russian-speaking minorities) to station troops in the Baltic countries, renounced this possibility: as Mikhail Gorbachev declared in his time 'you do not buy your security at the expense of your neighbours.'

According to European standards, the Turkish argument, concerning both the protection of Turkish Cypriots and the vital nature of its strategic interests, does not hold water. As this matter concerns an EU candidate country, Turkey should try to understand this and the Member States that are most in favour of its accession should try to convince it.

In short, a political settlement in Cyprus is inseparable from a Turkish commitment to remove its troops within a reasonable period of time and stop meddling in the island's affairs. There is no other possible way if Ankara wants to place itself in a European perspective.

24. To the West, the attachment of Rhodes and of the other islands in the Dodecanese to Greece (1947) then to the South the possibility of a union between Cyprus and Greece (envisaged in the 1950s and 1960s), which added to the pressure from the Warsaw Pact countries to the North, gave the Turkish military the impression of being surrounded by hostile countries.

Since the end of the Cold War, no European country has been occupied by another or houses foreign bases without its consent. For example, in order to start accession negotiations it would have been logical to ask Turkey to accept to evacuate its surplus troops in Cyprus (for example, Russia accepted to leave the Baltic countries in a three-year time frame). In 2005, the British Presidency missed an opportunity to do so by not making it a precondition.

2.1.3. The British Bases

Although it is another form of limitation of sovereignty, the status of the British Bases is not officially linked to the problem of the island, as their territory is not part of the EU and the Cypriots have not asked for the agreements to be revised.

Their future is nevertheless of key interest for Cyprus, for the British and indirectly for the EU, due to the geopolitical situation of the island and the role that the bases might play in the present (Anglo-American partnership) or future defence systems (in the case of NATO expansion or the implementation of an ad hoc EU defence policy).

Since the end of the Cold War, the strategic value of Cyprus has not diminished, due to the emergence of new factors of instability in the Middle East, following the two Gulf Wars and US involvement in Iraq.

The British have opened their bases to the United States as part of their 'special partnership' developed with Washington. In a relationship marked by strong inequality to the detriment of the UK, they can 'punch over their weight' in the joint defence system.

With technological evolution, more important than just airports is the listening system, now vital for ECHELON.²⁵ Although the United States has numerous other facilities in the Near East, it is very interested in the military bases (SBAs), where it can do what it wants, which is not possible on the neighbouring base of Incirlik near Adana, where the Turkish authorities decide in relation to their own interests, as was seen during the invasion of Iraq in 2003. In many countries it is the concessionaires of the bases that must adapt to the demands of local governments: in Cyprus the opposite is the case.

Considerations that are specific to the United Kingdom do not suffice to justify maintaining the bases: while the UK retains specific interests in the Middle East (and much more than the other European countries, given its colonial past and its role in the oil industry), it does not need military bases to defend these interests any more than the other Member States do. But the Pentagon made its preferences known and they were adhered to.²⁶ More recently, when revising its defence policy, the British government did not see fit to reduce the number of its troops on the island.²⁷

The Cypriots do not have many reasons to celebrate the strategic importance given to their island. In the 20th century, they would have had an easier life if the island had been less coveted by certain powers. Unlike Malta, regarding both money and jobs, the economic contribution of the British bases has never been significant. The island developed despite their presence and despite the resulting international complications.

There are several reasons for their lack of popularity: firstly, these powers did not protect the Cypriots in 1974 and they may still represent a risk for

25. Global system to intercept private and public communications (SIGINT), developed by the United States, the United Kingdom, Canada, Australia and New Zealand.

26. See William Mallinson, *Cyprus, Diplomatic History and the Clash of Theory in International Relations*, I.B. Tauris, Londres & New York, 2009, 228 pp.

27. 'Securing Britain in an Age of Uncertainty: Strategic Defence and Security Review (SDSR)', October 2010.

the island, when they are used against a Middle Eastern country as was the case with Iraq. Secondly, their way of doing sometimes disturbs the life of the local population. In the past, demonstrations were organised to put an end to the bombing exercises in the Akamas peninsula (with success) and to the setting up of the large antennas in Akrotiri in 2001, deemed harmful for the health of the resident population (without success).

Many Cypriots also make a connection between the maintenance of the bases and the continuing Turkish occupation, which would create an objective solidarity between London, Washington and Ankara leading the Anglo-Saxons to support the continued division of the island, an allegation that is rejected by the British.

It would be logical that the desire of the inhabitants for the evacuation of the bases²⁸ actually comes to pass, as was the case in many decolonised countries, including in Panama where the canal zone was under US sovereignty.

During her hearing with the Select Committee on Foreign Affairs of the British House of Commons,²⁹ Claire Palley qualified the status of the bases as ‘uncertain’ in international law. She considers that as the United Kingdom did not respect the Treaty of Guarantee by not defending the island’s integrity in 1974, Cyprus could withdraw from the Treaty and request that the bases be evacuated. In any case, these bases would have difficulty operating without the consent or even the active cooperation of the Cypriot authorities, who could prove to be more restrictive, particularly concerning the activities taking place outside their perimeter, such as the eavesdropping of Troodos Radar Station and of Capes Kiti and Greco.

28. According to CEPS, 74% of Greek Cypriots are opposed to the maintenance of the bases, as are 57% of Turkish Cypriots (Alexandros Lordos, Erol Kaymak and Nathalie Tocci, *A people's peace in Cyprus: testing public opinion for a comprehensive settlement*, Centre for European Policy Studies, Brussels, 2003-2004.

29. House of Commons, Foreign Affairs Committee, *Second report* (22 February 2005): *Written evidence submitted by Dr Claire Palley*.

The root of the problem, in the Eastern Mediterranean Basin just as in the Middle East, is that the major powers have always placed their geopolitical imperatives before respect for international law and democratic values. This was the case during the Cold War, with CIA support for the Greek military coup in 1967 and the overthrow of Makarios in 1974. This policy continued after 1989: in its relations with Turkey as with the other countries in the region, the United States, despite the proclaimed aim of building a democratic 'Greater Middle East', has maintained its geostrategic priority.

Although Cyprus has become a Member State of the EU, it is still victim of this priority. In Washington's attitude, the concern of handling Turkey with kid gloves and therefore tolerating its occupation, prevails over respect for international law, even though the shift in Ankara's foreign policy has shown the naivety of the US approach.

The purpose of European integration is precisely to reduce the significance of these considerations, or even to make them redundant, as seen in the half-century (1935-1985) that elapsed between the construction of the Maginot Line and the signing of the Schengen Agreements.

In fact, the best geostrategic approach is to build lasting peace with one's neighbours. This is what has been successfully done in a large part of Europe. Why would EU enlargement towards the Eastern Mediterranean Basin not lead to a similar result? This should logically be one of the aims of the major powers, especially the United Kingdom as a member of the EU and Turkey as a candidate country.

Up until now, the geostrategic priorities of the powers have been in almost total contradiction with the interests of the one million inhabitants living on the island today. If Cyprus has been a producer of security for other countries, it has been to its own detriment. Nevertheless, the situation of the island in its contact with the Near East cannot be overlooked: is

it possible to reconcile the strategic concerns of the powers today, and possibly of the EU tomorrow, with the interests of the island's inhabitants?

Over the course of the 20th century, the Middle East never ceased to be a major concern, but its role varied. In the beginning, the major powers sought to settle there in order to guarantee their hegemony, a little later it was to secure their oil imports. Today, it is about protecting themselves from governments that encourage terrorism or that want to acquire nuclear weapons: the powers have moved from an offensive vision of conquest or control to a defensive approach of protecting their territory and their nationals, and the 'Arab Spring' will probably heighten this trend.

Is it fair that an EU Member State is indefinitely placed in this subservient situation, unless it so desired, which is not the case for Cyprus? Are the countries that are taking advantage of this – starting with the UK – ready to negotiate their terms instead of imposing them?

Instead of desperately trying to maintain a status quo, a short-term policy that strengthens Turkish occupation and makes the Cyprus problem unsolvable, the British are capable of negotiating terms compatible with the island's independence and its status as EU Member State. This opportunity could become a necessity with the emergence of a Common Security and Defence Policy: the fact that it is not currently alive and kicking does not mean that it will never exist and that it will not be useful to the region's stability.

This problem, which was carefully circumvented during negotiations of the Annan Plan, will return some day to the foreground and will require cooperation between the opposing parties: as members of NATO, of the EU and as right-holders of the bases, the British are the most concerned. Just as the US did in Panama, it would be logical for them to renegotiate their presence in Cyprus, by reconciling their strategic needs, which nobody is naïve enough to ignore, with the wishes of the island's inhabitants.

2.2. Internal Issues: What New Federal State?

2.2.1. Political Compromise

Just as in any Member State, it is up to the Cypriots to acquire the political organisation suited to their needs. However, the EU cannot remain indifferent to this, insofar as the configuration thus created will have a significant impact on its functioning.

In 2004, the Annan Plan wished to reintegrate Northern Cyprus into international law, by juxtaposing the Northern and Southern administrations in a very loose federation, without being too concerned about the smooth functioning of the institutions thus created.

For the EU, the reunified island must not become an artificial or even fictitious State, as in Bosnia and Herzegovina, incapable of fulfilling its duties of Member State, when it does so very well today. The federal government must exercise its jurisdiction over the entire island and fully participate in the Community's decision-making process, without exporting any possible internal quarrels to Brussels. The new institutional framework should not lead to a new withdrawal either, which would stem from a repeat of the 1963 breakdown,³⁰ this time unexpected, where the Turkish Cypriot part would take half the sovereignty away with it.

In an island with a surface area of 9,250 km² and a little over one million inhabitants, the creation of a dual-entity federation is not self-evident. It requires complex mechanisms and risks of proliferation of administrative bodies that a small State cannot necessarily afford.

Elsewhere, such a choice was the consequence of geography or history: in the New World countries, 'too much geography' (as was said in Canada)

30. The incidents of December 1963 led to the end of the bi-communal regime established by the 1960 Constitution.

and therefore the difficulty in managing regions that are very extensive and far from the centre has led political organisations to allow the constituent States a lot of autonomy. In Europe, it is the weight of history, i.e. the existence of secular particularisms, especially in Germanic countries, which is the cornerstone of the Swiss, German and Austrian Federations. The Cyprus issue is a little different, but it is generally admitted that federalism would provide the most appropriate response, provided that it is organised in a functional manner.

All federal systems ensure an over-representation of one population category, normally intended to compensate a disadvantaged situation or an ethnic, linguistic or religious particularism: in the US and in Germany, each of the States/*Länder* has the same representation in the Upper House (Senate/*Bundesrat*), independently of its population. It is just necessary that this institutional imbalance does not jeopardise overall effectiveness. For it has been recognised that a federation made up of many units (from the 9 Austrian *Länder* up to the 50 American States) acts as a better buffer for possible conflict than a bilateral system, especially if one has both the highest population and the wealthiest economy, which today is the case in Belgium and will be tomorrow in Cyprus.

The participants' willingness to cooperate is a vital bonding element: many federations are based on shaky or changing foundations and function not because of their excellent legal framework but because of the desire by all to maintain a common existence. As Glafkos Clerides has analysed so well in his 'Deposition',³¹ while the 1960 Constitution had many flaws, it was above all the lack of willingness that led to the 1963 impasse. Many observers feel that this lack of willingness is still a problem today.

31. Glafkos Clerides, *Cyprus: My Deposition*, Volumes 1, 2, 3, 4, Alithia publishing Co. Ltd, Nicosia, 1989.

It is therefore vital that a new institutional arrangement ensure the functional combination of the two basic principles of federalism: a balance between the parties (equal partnership in Cyprus) and cooperation. This needs to be given strong impetus, as that is what was lacking in the 1960 Constitution and in the Annan Plan, both of which allowed for a lot of balance but not enough cooperation.

The concept of equal partnership must be used in a realistic manner: in Canada, while there are two 'founding peoples', it does not occur to the French Canadians (23% of the total population in 2001) to demand, for this reason, institutional leverage equivalent to that of English-speaking Canada, as the Turkish Cypriots have been demanding until now.

The concept of bi-zonality offers new opportunities, provided that it is properly constructed. It brings Cyprus closer to federations where there are ethnic or linguistic majorities at the level of one or many federated entities, as in India. Each one has a varying degree of autonomy in its territory and can use it to develop policies to defend its ethnic or cultural identity. If this autonomy is well articulated with federal level, it can reach its objectives, by compensating the demographic or economic handicap of the disadvantaged community.

The Greek Cypriots would have preferred a unitary State that would have guaranteed the rights of the minority through special provisions, possibly consolidated by an international agreement, but they have accepted the federal option.

Since the demonstrations in the first six months of 2011, the views that are put forward by the Northern administration can no longer be considered as an expression of the true political objectives of the Turkish Cypriots. While it is clear that Turkey wants a system that is as separatist as possible, it is not clear to what extent the indigenous people are in favour of this.

Have they become aware of the advantages of a functional federal power? Their experience of self-isolation since 1963 should have convinced them that the size of the ghetto has no bearing on the matter. Those who are in a minority (demographically) and disadvantaged (economically and socially) need aid transfers more than the others. They therefore need to accept a federal power that is capable of carrying them out.

The 1960 Constitution had created a strong executive, but it was not a good idea to give the (Turkish) Vice-President a right of veto. It is not certain that this drawback will be overcome by a rotating presidency. This system works in Switzerland and has been accepted by both parties. It would be appropriate to have a federal government chosen by a majority of parliamentarians belonging to both communities on the basis of ministers' expertise, with an 'asexual' president.³²

Concerning legislative power, the Annan Plan and the ongoing negotiations have done better than the 1960 Constitution, by foreseeing a German-style system: an Upper Chamber (Senate) where both communities are equal and a Lower Chamber elected on a per capita basis, where the Greeks would therefore have a majority. However, it is dangerous to require special majorities to vote on ordinary matters (in particular the budget, management of water resources and immigration) by giving a blocking minority to two fifths of the senators from both communities. This clearly encourages obstruction tactics such as those that Cyprus already experienced between 1960 and 1963. This possibility should only be maintained for extraordinary matters or for revision of the Constitution.

In several countries, the practice of federalism has shown the importance of an independent Supreme Court. The Annan Plan partly supports this, particularly by giving the Court the ability to impose its decisions in

32. In Belgium, the Prime Minister is known as 'linguistically asexual' in order to preserve his ability to arbitrate.

the case of deficiency of the executive. But it does not provide it with the means to function effectively. It is not parity between the judges from the various communities that raises an issue (even though an uneven number of judges would be preferable), but the refusal to make federal law predominant. The example of Belgium, where this has often paralysed the Constitutional Court, argues in favour of strict prioritisation between the legislations of the different levels of government. Failing this, the Court cannot arbitrate and the executive is paralysed.

In the distribution of posts within the administration, the desirable fact of seeking a balance within the Community should not take precedence over the creation of a federal civil service recruited through competitive exams, so as to ensure complete independence, and allow it to exercise its prerogatives in the general interest.

2.2.2. The Economic Feasibility of Reunification

There is long-standing income disparity between the two communities, linked to the delay in economic development in the Turkish community. In 1960, the per capita income for Turkish Cypriots was estimated at 86% of that of Greek Cypriots. This gap widened during the 1960s. By 1973, it was estimated that the per capita income in the Turkish-administered areas was at 50% of that of the Greek Cypriots. Against all expectations, in 1974, even though they have seized a very considerable potential, not only did the Turkish Cypriots not reduce this gap, but they actually widened it: in the early 2000s their GDP/per capita was less than a third, or even a quarter of that of the Greeks. While the property boom that followed helped to reduce this gap, it has been growing again since 2008.

In a small economy that is well integrated into the European Single Market, reintegration of the North, which only represents 10% of the island's GDP, should not be an insurmountable task. In fact, reunification appears to be

a difficult deadline to meet, for at least two reasons. Firstly, the economy of the North is extremely dependent on Turkish subventions and the market mechanisms there operate insufficiently. Secondly, as the political outline of reunification is still quite uncertain, so too is the process of bringing the two economies closer together.

In relation to German unification, the two operations seem relatively comparable: for the FRG, it also concerned integrating a quarter of the population and 10% of GDP. Although the nature is different, the delay in development in the North is as obvious as that of the GDR in 1989. In both cases, there was an artificial economy that had to face up to market constraints once again. But in 1990, the German government had incomparable scope, both internally and externally, which is not the case in Cyprus.

Obviously, the Cyprus situation presents political difficulties that Germany did not have to deal with. There will be no agreement to dissolve the institutions of the North. The steering of reunification will therefore be a dual-control operation for the Turkish Cypriot constituent State and the federal government, where the Turkish community should benefit from representation that is superior to its demographic weight and disproportional to its economic weight.

The differences in the development of both economies nevertheless creates possible complementarities. The South needs labour from the North and the North could thus improve its living conditions. The North badly needs to be pulled out of its lethargic State by integrating an open economy, where it could develop its potential. However, prosperity in the South just as much as economic stagnation in the North are adding to the blockage. By making the Greek Cypriots strong enough not to have to recognise the *fait accompli*, and the Turkish Cypriots too weak to bear the brunt of reunification, economic development places both communities in a position to make demands that are unacceptable for the other side.

While negotiations between Cypriots from 2008-2010 gave positive results, the final compromise will be difficult to achieve. As with the Annan Plan, there is a high risk that any agreement reached would be unworkable.³³

Reunification will take place within the European framework. The federal authorities will simply need to notify Brussels of the end of the suspension of the Community acquis in the North. This framework provides solutions to controversial problems: the implementation of European legislation avoids the sensitive or even taxing search for elusive or unmanageable compromise. In Central Europe, the candidate countries were in favour of its immediate adoption and were generally very pleased with it. In Cyprus, the small size of the country excludes permanent derogations or even long transition periods, but this has not been understood by the Turkish Cypriots, who evoke the weaknesses of their economy.

Indeed, the Northern economy is living well beyond its means. Inefficiency and political cronyism have placed it in the doldrums.³⁴ That is why Denktash, the 'president' of the Turkish Republic of Northern Cyprus, did not see any alternative to the indefinite maintenance of the status quo, just like Erich Honecker who led the German Democratic Republic in the 1980s, he needed his 'Wall' to retain power.

Since 1960, at the instigation of Turkey, the Turkish community has taken a separatist stance that led it to demand and often obtain prerogatives that it does not have the means to exercise. This stance, which has led to repeated political failures is also counterproductive in economics. Reunification offers the opportunity to change this in a positive context, but the Turkish side imagines another accession negotiation in which it could obtain derogations to Single Market rules and specific advantages, mainly lacking in economic rationality.

33. 'The price for badly designed policies will be high', Minister of Finance for the Cyprus government, September 2008.

34. World Bank, *World Development Report 2006*.

In this way, demands were made, aimed at partitioning the banking system (when the World Bank has serious doubts about its equilibrium) or at letting the Turkish Lira circulate in competition with the euro, whereas a coherent policy of deficit control is more necessary than ever and required by the European authorities. The Northern administration also wishes to maintain an independent statistical system, which is incompatible with the implementation of a transfer mechanism to its advantage.

In fact, realistic thinking on a sound development strategy is still lacking in the North. In the ongoing negotiations, the Turkish Cypriots are demanding that development policy remain within the scope of the constituent States, whereas the extent of the lag implies that it should be a federal priority. In the same way, the rapid adoption of Single Market rules should not be an option, but rather a means to catch up economically. The temptation to have the lowest tax level does not hold water either, against the huge current deficit. There is therefore no alternative to cooperation, or to integration, but the Northern administration does not want it for political reasons.

The World Bank Report has clearly shown what was needed to transform a backward and dependent economy into a reliable economic partner. A substantial portion of the Turkish Cypriot population, particularly those living in the administrative sphere, are aware that the process will be painful, as were the economic transitions in Central European countries. But these countries did not have a 'national issue' to resolve.

In the South, experts from the Finance Ministry are in favour of a strong federal power ensuring as complete an integration as possible of both halves of the island, under a strong, dynamic and competent federal administration, with a budget that is large enough to reduce the disparities between the two parts of the island. They consider that this strategy is the most appropriate to carry out the genuine unification of the economies, a guarantee of consolidation of the political union, which will take a little more time.

But they have understood that because of the Northern separatist wishes, the reunification procedure would be carried out on the lowest possible level. Their inclination is therefore to safeguard their freedom of action and their budget: as the North wants to go it alone, this has the advantage of costing Southern taxpayers less. Unification of the economies will take place spontaneously through the development of market mechanisms, which will put an end to the locational advantages that Northern businesses currently enjoy. As the private sector in the South is competitive at European level, it can continue to develop without the North, whereas the opposite is not the case.

Reunification should be made easier by exploiting a major natural gas field of 51,000 km² in the EEZ, recognised as belonging to Cyprus, in accordance with the UN Convention on the Law of the Sea. According to the US Geological Survey, there is said to be up to 3,500 billion cubic metres of recoverable gas reserves in the Levant Basin, to be shared between Israel, Lebanon, Egypt and Cyprus. As regards Cyprus, based on an estimate dating from February 2011, some 283 billion cubic metres of recoverable reserves can be expected from 2016, compared with the two Israeli fields already identified that are Leviathan (453 billion cubic metres) and Tamar (244 billion cubic metres). The US firm Noble Energy is involved in both sides of the Israel-Cyprus maritime border and started drilling on the Cypriot side at the end of 2011.

Cyprus has signed maritime demarcation agreements with Israel, Egypt and Lebanon. It is not surprising to discover that there is no agreement with Turkey, who is not a signatory of the Convention on the Law of the Sea. It denies Cyprus' government the right to conclude agreements in this field and has promised to oppose Cypriot drilling, even though the geography of the gas field clearly places it on the Southern side, thus making it recoverable, regardless of Turkey's wishes.

This prospect of gas introduces a new political element: not only would Cyprus be able to satisfy its energy needs, but it could also export and justify the construction of a liquefaction plant that could also be used by the Israelis. Cyprus would therefore have the useful role of transit for the entire region and for once would take advantage of its geopolitical situation.

Not only will the island obtain energy independence, but the financial resources from exports will be a decisive contribution to the budget. In principle, this money will be allocated to the federal budget, which will allow Turkish Cypriots to benefit. It could also be a decisive contribution to financing reunification and to resolving property issues.

2.2.3. Issues of Residence Permits and Property

Instead of using the opportunity of its military intervention in July 1974 to obtain an advantageous status for its Cypriot protégés (it would have been within its right to request the re-establishment of the 1960 Constitution), Turkey brought about demographic upheaval that affected 40 to 50% of the island's population. In order to resettle almost 50,000 Turkish Cypriots, it expelled over 150,000 Greek Cypriots. Not only did it create a considerable gap between fact and law, but it gave the problem a huge dimension in relation to the size of the island.

The properties in dispute represent almost 200,000 hectares in the North, estimated at €28.5 billion in 2002 and approximately 55,000 hectares in the South, at an estimated value of €2.7 billion in 2002. Here we can see the imbalance: the Northern administration seized an area almost four times greater than that which the Turkish Cypriots had abandoned in the South. The imbalance is even greater in value: Turkish Cypriot property in the South represents only one tenth of that which was lost by the Greeks in the North.

From a legal point of view, demands from the Turkish side aimed at legalising the fait accompli of 1974 (except in the territories that it would accept to restore to the Greek constituent State) come up against the dual obstacle of respect for property rights and for freedom of establishment.

Since the end of World War II, international law guarantees property, which was confirmed by the European Court of Human Rights (ECHR) in the *Loizidou v. Turkey* case. The Court of Justice of the European Union (CJEU) in Luxembourg went even further by declaring applicable throughout the entire EU (in the name of the principle of mutual recognition), the judgments of the Greek Cypriot courts to this end (the *Apostolides v. Orams* case).

Community provisions in the field of freedom of establishment feature in the Treaty of Rome, as a vital element of non-discrimination between European citizens, who must have the same rights, whatever their place of residence. Over the past half century, these have been further deepened through numerous directives and strengthened by the case law of the Court of Justice, which has often condemned Member States, even for minor offences.

It is not uncommon for governments or regional and local authorities to try to bypass Community rules in order to prevent unwelcome populations from settling. In Belgium, with the '*Wooncode*',³⁵ the Flemish administration seeks to discourage the arrival of non-Dutch speakers on its territory. In other countries, regional or local authorities have developed restrictive legislation, covered up as urban planning, to prevent people not from the town or region from acquiring secondary residences.

35. Housing Code: a decree adopted by the Flemish regional government in December 2006 in which the purchase or attribution of social housing is subject to knowledge of the Dutch language.

As Community law does not provide for the defence of regional or even national identity, there is no legal basis for establishing permanent derogations,³⁶ which would make Greek Cypriots second-class citizens, allowed to settle anywhere in the EU, except in the Northern part of their country where they are still legally owners.

In Turkey, it was thought for a long time that the problem would be resolved through the legalisation of the *fait accompli*, in conjunction with compensation of differing amounts, which would be impossible to implement without significant external funding, given the disproportion between what was lost by the Greeks and by the Turks. In addition, the Turkish Cypriots are requesting a permanent derogation to the right of establishment (or of resettlement) in the North, in order to prevent the Greeks from coming back and possibly recovering most of the property, including some villages.

On the strength of their legal advantage, the Greeks are requesting the restitution of the properties taken away from their legal owners, and it is up to these owners to decide what to do with them. Next, many solutions are possible in relation to the situation on the ground: restitution for those who wish to live in the North, the signing of long-term leases for those who will remain owners, or compensation, in relation to the interests of the legal owners and the occupants. They consider that the Community *acquis* should apply fully in Cyprus as it does in the rest of the EU in terms of freedom of movement and of establishment.

With the significant exception of residents from Varosha, the Greek Cypriots evicted in 1974 were mainly rural inhabitants. Almost four decades later, the survivors and their descendants have become urbanised; they live in a modern society, with livelihoods and services that they will not find in their native villages. The prospect of resettling in a completely ‘Turkified’ envi-

36. It is not proven that the case of the Åland islands, often raised by the Turkish Cypriots, would be applicable for these.

ronment is of relatively little interest to a large majority of them. Having a 'right of return' does not mean that they will actually use it, even by crossing the Green Line daily in order to keep their job in the South. It is therefore highly likely that the population wishing to do this will remain a minority. But the Turkish Cypriots are persuaded otherwise, and this has blocked negotiations.

Concluding remarks

Despite the serious nature of the 1974 events, the Cyprus issue, since this date, is one of a ‘frozen conflict’ which has caused practically no casualties. The opening of the Green Line, initially presented on the Turkish side as being unworkable, has not given rise to any incident in almost 10 years. It seems possible, therefore, to work towards a solution and to plan the necessary steps in order to put it into practice.

To do this, the Cypriots must rebuild a minimum amount of mutual trust allowing them to work together on building a functional federal State that is capable of dealing with the heavy bone of contention stemming from the past. For the Greeks, who are wealthier, more numerous and who enjoy international recognition, this means resisting ‘hegemonic temptations’. For the Turkish Cypriots, it means moving away from the ‘separatist temptation’ that has kept them for so long in an impoverishing isolation.

Before, as well as after the Annan Plan, Turkey still appears as the main factor of blockage. Its refusal to recognise the government of Cyprus and its pretentiousness in dictating the choice of its rotating presidency to the

EU show that it has not abandoned the policy of the *fait accompli*. And yet, Ankara should put an end to its military occupation and involve itself no more in the island's affairs than Belgium's neighbours do in its internal problems.

London and Washington should be convinced that international law is applicable to Cyprus and that it can prevail over their geopolitical concerns. Or at least that these concerns can be addressed in another way, instead of resigning oneself to the division and occupation of the island, through a new defence agreement, negotiated with the Cypriots.

Lastly, the prospect of the discovery of natural gas paves the way for reassessment of the geopolitical position of Cyprus and for greater funding to ensure its reunification.

Part 2

The Republic of Cyprus in Perspective: the Record and Future Challenges

Andreas Theophanous

Introduction

Cyprus is a small island (9.263 km²) in the Eastern Mediterranean. It gained its independence from British colonial rule in 1960. At the end of 2011 the population in the government controlled areas stood at 862.000.¹

Fifty-two years after its establishment and just eight years after membership to the European Union (EU) the Republic of Cyprus faces multidimensional challenges. It is engaged in a peaceful liberation struggle (against Turkey) which is more reminiscent of a 19th century context (as it also includes an interethnic conflict) while having to tackle the problems of the 21st century. These include overcoming the effects of the global economic crisis, moving toward a new economic paradigm, dealing with the challenges of a modern society within the context of a multicultural Europe, addressing illegal immigration, improving the level of education, of health

1. The population of the government controlled areas of Cyprus at the end of 2011 was 862.000 persons. <http://www.mof.gov.cy/mof/cystat/statistics.nsf>. This excludes the number of Turkish Cypriots (estimated to be around 100.000) and of the settlers (estimated at around 180.000) in the northern occupied part.

services and more recently the question of exploitation of its newfound energy resources.

Section 1 of the contribution addresses the circumstances of the birth of the Republic of Cyprus and also examines political and economic developments. It also discusses the 1974 events and the broader fallout.

Section 2 assesses the new geopolitical landscape which developed in the post 1974 period. It also underlines the importance of the recovery and of the economic miracle which followed the 1974 catastrophe. Attention is also given to repeated UN initiatives to address the Cyprus question in a conclusive manner as well as to the growing importance of the EU.

Section 3 addresses the political, economic and energy strategic objectives of the Republic of Cyprus. These include the solution of the Cyprus question in a way that restores the territorial integrity of the country as well as an enhanced role within the framework of the EU. It also stresses that Cyprus requires a new economic paradigm. The fact that Cyprus assumed the Presidency at the EU Council from July 2012 is also examined.

We then put forward some concluding remarks and raise certain questions in relation to future options and challenges.

1. Historical Background and Context

1.1. The Birth of the Republic of Cyprus

When the Cypriot State was created it was what is often described as “a reluctant Republic.”² The major objective of the EOKA (National Organisation of Cypriot Fighters) anticolonial struggle against the British throughout 1955-1959 was *enosis* (union with Greece).³ Greek Cypriots, about 80% of the population of the island, felt that this was a just cause. The Turkish Cypriot minority community, about 18% of the population, favoured *taksim* (partition) although within it an extreme section claimed that Cyprus should be given to Turkey. The remaining 2% consisting of Armenians, Maronites and Latins identified with the Greek Cypriots. The 1960 Constitution, based on consociationalism,⁴ was designed by the guarantor powers – Britain,

2. Xydis S. G., *Cyprus: Reluctant Republic*, Mouton Press, The Hague/Paris, 1973.

3. Holland R., *Britain and the Revolt in Cyprus 1954-1959*, Oxford University Press, Oxford, 1998.

4. Consociationalism, as a system of government in biethnic and multiethnic States, stresses the importance of consensus among the constituent ethnic, religious and/or linguistic groups. It also rejects the principle of majority rule. For a theoretical elaboration and further appraisal, see Lijphart A. (Ed.), *Democracy in Plural Societies*, Yale University Press, New Haven and London, 1977.

Turkey and Greece – and was presented as a compromise. In fact, and quite inevitably, it reflected the imbalance of power in the region.⁵

The early days of the Republic of Cyprus were characterised by intercommunal and intracommunal strife. The lack of political maturity and experience were not conducive toward a normalised political life. Furthermore, the constitutional structure itself did not encourage the creation of common objectives and a shared vision between the two communities. The sustained interventions of foreign powers did not make things easier. The defining period for the Turkish Cypriots was 1963-64 which led to their withdrawal from the government, the establishment of the so-called “green line” as well as the creation of more enclaves.⁶ Greek Cypriots felt that this was part of a broader Turkish plan for the partition of Cyprus. Conversely, most Turkish Cypriots felt there was a real issue of security.⁷

The events in 1963-64 augmented bitterness and distrust. The Republic of Cyprus was effectively governed by Greek Cypriots following the withdrawal of Turkish Cypriots from the government and the civil service. Turkey exercised absolute control over the Turkish Cypriots the primary allegiance of whom was not toward the Republic of Cyprus. At the same time the Turkish Cypriot enclaves began to breed the seeds of partition.

Cyprus was undergoing a socioeconomic transformation which created new stakes (*see section 1.2. below*). This, in conjunction with the military coup in Greece on 21 April 1967 led to a fundamental redefinition of Greek Cypriot objectives. President Makarios declared that “what is feasible does not always coincide with what is desirable.” A new policy of abandoning *enosis* and opting for a unitary State was subsequently defined through

5. Greece, as a guarantor power, was the weakest party in the Eastern Mediterranean. On the other hand, the relative strength and positions of Turkey and Britain respectively were well entrenched.

6. Violence broke out soon after President Makarios, the first President of the Republic of Cyprus, submitted on 30 November 1963, a set of 13 points for a suggested revision of the 1960 Constitution.

7. Kyriakides S., *Cyprus: Constitutionalism and Crisis Government*, University of Pennsylvania Press, Philadelphia, 1968, pp. 157-162.

a vast majority in the presidential elections of early 1968. Cyprus was seen to be moving along the lines of pragmatism and a promising future was foreseen. Tragically the coup of 15 July 1974 reversed this historical path.

1.2. The Overall Economic Environment

In 1960, when Cyprus gained its independence, the economy was relatively backward with almost half the labour force employed in agriculture, which accounted for about 17% of gross value added in real terms. There was limited infrastructure and the standard of living was very low. Cyprus had no endowments of natural resources and the size of the domestic market was extremely small; total population at the end of 1960 was 580.000.

Cyprus adopted the model of market economy supplemented with indicative planning from the public sector. From the very beginning Cyprus embarked on a process of rapid economic expansion. Between 1960 and 1973 GDP expanded at an average of 7.3% annually in real terms. Per capita income in money terms rose from 91.6 Cyprus pounds in 1960 to 330 Cyprus pounds in 1973. (On average, during the period the exchange rate was roughly £1:\$2.68). The fastest growing sectors in the period were manufacturing, construction and utilities. Cyprus also became a fast growing holiday destination. Considerable advances were also recorded in the finance and business services sectors. The Central Bank of Cyprus was founded in 1963 and it functioned in coordination with the Ministry of Finance. The banking sector was starting to develop and the ratio of loans to GDP rose from 35% in 1960 to 51% in 1973.

During this period 1960-1973 the role and contribution of the government was instrumental. Its Planning Bureau prepared five-year plans and the government budget included a development budget for infrastructure works. Working with the private sector the government followed moderate

fiscal and monetary policies. Price inflation averaged 2% annually with price pressures escalating in the latter part of the period. The budget was usually in surplus in the period and total public debt was almost non-existent rising from 3.7% of GDP in 1960 to 4.7% of GDP in 1973. In sum, the early period of the young Republic witnessed spectacular growth amidst conditions of macroeconomic stability driven largely by investment in infrastructure and productive capacity.

1.3. The Events of 1974 and the Broader Fallout

The crisis in 1974 was the culmination of foreign interventions in Cyprus. On 13 July 1974, M. Dekleris and O. Alticacti, two constitutional experts from Greece and Turkey respectively, finalised a draft for a comprehensive settlement of the Cyprus problem which was to be ratified on 16 July 1974 by the two negotiators, G. Clerides and R. Denktash.⁸ This agreement based on a unitary State with elements of local and communal self-administration on issues of low level politics and aimed at overcoming the stalemate following the 1963-64 constitutional and intercommunal crisis. But international attention and local public opinion at the time was not focused on the prospect of an imminent solution of the Cyprus problem, but on the brewing clash between President Makarios and the Greek junta.

On 15 July 1974 the Greek junta overthrew Makarios. For Ankara it was an unprecedented opportunity as both the Greek junta and the putschist Sampson regime in Nicosia were internationally isolated. Some analysts have supported that the Greek coup d'état against Makarios was supported or at least condoned by the CIA.⁹

8. Dekleris M., *The Cyprus Question 1972-1974: The Last Opportunity* (in Greek), Estia, Athens, 1981, pp. 266-273; Christodoulou M., *The Course of an Era: Greece, the Cypriot Leadership and the Cyprus Problem* (in Greek), Ioannis Floros, Athens, 1987, p. 623.

9. O' Malley B. and Craig I., *The Cyprus Conspiracy: America, Espionage and the Turkish Invasion*, I.B. Tauris, London/New York, 1999.

On 20 July 1974 Turkey invaded Cyprus. Ankara stated that “its intervention was intended to reestablish the constitutional order and to protect the Turkish Cypriot [minority] community.” On 23 July 1974 the Greek junta collapsed and C. Karamanlis returned to Athens to lead the country to the reestablishment of democracy.¹⁰ The putschist regime in Nicosia collapsed and G. Clerides – as Speaker of the House of Representatives – assumed the duties of Acting President in accordance with the Constitution. He immediately suggested to R. Denktash, the Turkish Cypriot leader the return to the 1960 Constitution.¹¹ R. Denktash and Ankara declined.¹²

With the reestablishment of democracy in Greece and of the constitutional order in Cyprus, international public opinion changed. Both Karamanlis and Clerides enjoyed respect and credibility throughout the world. Nevertheless, Turkey continued its military operations despite the negotiations (involving Greece, Turkey, Britain, Greek Cypriots, Turkish Cypriots and the UN) for a peaceful resolution. On 14 August, Turkey launched a second massive attack after the rejection of its ultimatum to the Republic of Cyprus to surrender about 34% of its territory. Greek Cypriot civilians were expected to evacuate this territory and allow the Turkish army to deploy. By 16 August 1974 Turkey had occupied 38% of the territory of the Republic of Cyprus, having committed atrocities and violations of human rights.¹³ Following 20 July acts of violence against Turkish Cypriot civilians by Greek Cypriot extremists were also reported. These acts were undertaken in response to the atrocities of the invading Turkish troops as well as of Turkish Cypriot forces against Greek Cypriot civilians. The Turkish Cypriots who used to be evenly distributed throughout the island were gradually transferred to the occupied area.

10. O'Malley and Craig, *op. cit.*, pp. 87-119.

11. On 15 November 1983 R. Denktash unilaterally declared the so-called “Turkish Republic of Northern Cyprus” which was and continues to be recognised only by Turkey. The Security Council of the UN condemned this action.

12. Clerides GL, *My Deposition* (in Greek), vol. 4, Alitheia Press, Nicosia, 1991, pp. 38-39.

13. Hitchens Ch., *Hostage to History: Cyprus from the Ottomans to Kissinger*, Verso Press, London/New York, 1997; O'Malley and Craig, *op. cit.*; Coufoudakis V., *International Aggression and Violations of Human Rights: The Case of Turkey in Cyprus*, Minnesota Mediterranean and East European Monographs, Modern Greek Studies, University of Minnesota, 2008.

2. The Economic and Geopolitical Landscape after 1974

2.1. The New Geopolitical Landscape After 1974

Had Turkey stopped its military operations on 23 July 1974 and contributed to the reestablishment of the constitutional order based on the 1960 agreements, few would have questioned its stated reasons for “intervening.” Retrospectively though, there is no doubt that Turkey committed ethnic cleansing, did not re-establish the constitutional order in Cyprus, occupied 38% of its territory, set up a puppet regime and has pursued a policy of colonization and demographic transformation. By the end of 2011 the population in the self-proclaimed “Turkish Republic of Northern Cyprus” (“TRNC”) was estimated at approximately 280.000 (180.000 settlers, 95.000 Turkish Cypriots and 5.000 others); this excludes the Turkish troops of occupation estimated at around 40.000. Furthermore, there has been systematic destruction of the cultural heritage as well as massive exploitation and

usurpation of Greek Cypriot properties.¹⁴ It became obvious that Ankara's objective was to bring Cyprus under its strategic control.

Despite the initial outcry and various strong resolutions of the UN and other international institutions, in essence no practical measures have been taken against Turkey. In November 1974, the UN General Assembly passed a unanimous resolution (3212) for the respect of the territorial integrity, sovereignty and independence of the Republic of Cyprus and for the withdrawal of all foreign troops. Ironically, Turkey voted in favour of this resolution. Subsequently, the UN urged bicommunal negotiations to address the problem despite the fact that the issue is multidimensional and with the bicommunal aspect not being the most important one. Not surprisingly, successive rounds of bicommunal negotiations did not lead to any results.

Following the events of the summer of 1974 there was new thinking about how to proceed with a final solution to the Cyprus problem. Initially Greek Cypriots were discussing the prospect of a multi-canton federation. The Turkish Cypriot side immediately revealed its preference for what came to be known as a bizonal bicommunal federation. The high level agreements of 1977 and 1979 entailed a very different approach than what had been discussed before 1974.¹⁵ For the Turkish Cypriot side these agreements nearly met their maximalist positions while for the Greek Cypriots they have always been perceived as a painful concession.

For the Greek Cypriots the rights of property, return of the refugees to their homes and settlement of all Cypriots throughout the island were (and remain) inalienable. For the Greek Cypriots it was logical to demand the return of their properties while the Turkish Cypriots' demand to live in an

14. Ioannides Ch. P., *In Turkey's Image: The Transformation of Occupied Cyprus into a Turkish Province*, Aristide D. Caratzas, New Rochelle NY, 1991; Coufoudakis, op. cit.

15. Bahcheli T., "Searching for a Cyprus Settlement: Considering Options for Creating a Federation, a Confederation, or Two Independent States", *Publius: The Journal of Federalism*, 30(1-2), 2000, pp. 203-216; Theophanous A., "Prospects for Solving the Cyprus Problem and the Role of the European Union", *Publius, The Journal of Federalism*, 30(1-2), 2000, pp. 217-241.

area under their own administration could be satisfied without violating the rights of Greek Cypriots. The Republic of Cyprus could construct on state land new homes for Turkish Cypriots living on Greek Cypriot property. Arrangements could be made so that even if all Greek Cypriots returned under Turkish Cypriot administration, there would still be a Turkish Cypriot majority in the northern part of Cyprus.

The Turkish Cypriot positions on these issues were entirely opposite. There would be “global” exchange of properties and compensations; the region administered by each community would preferably be ethnically homogeneous. Furthermore, the Turkish Cypriot interpretation of the new state structure had multidimensional implications. In essence, the central government would be very weak and the source of power would be the two ethnically homogeneous entities; these were later to be described as “constituent States” in the UN sponsored Annan Plan V in 2004.¹⁶

The arrangements envisioned by the Turkish Cypriot side would make it difficult to have one economy, one society and one State. The strict, almost absolute, bizonality clauses demanded by the Turkish Cypriot side negate the idea of an integrated economy. Yet the Turkish Cypriot side would demand convergence of living standards – without an integrated economy and without the free flow of factors of production. And there was no talk about convergence of productivity levels.

There were different perspectives on the decision-making processes too. It was one thing for Turkish Cypriots to have autonomy in the region under their administration; it was another to demand a 50-50 share in the central government. Greek Cypriots agreed that there could be effective Turkish Cypriot participation in government, but this did not translate arithmetically to participation on a 50-50 basis. Greek Cypriots stressed the supremacy

16. Palley C., *An International Relations Debacle: The UN Secretary-General's Mission of Good Offices in Cyprus 1999-2004*, Hart Publishing, Oxford and Portland Oregon, 2005.

of the central government in contrast to the Turkish Cypriot position that most power should emanate from the two zones which were regarded as political entities of equal, almost sovereign status.

Given the political and geostrategic factors it is no surprise that there has been no breakthrough over the years. The majority of Greek Cypriots view the Turkish Cypriot ideas for a solution as entailing “absolute control in the north” and “a partnership arrangement in the south.” This they consider as worse than partition.

2.2. Recovery and the Economic Miracle

The Turkish invasion of 1974 dealt a severe blow to the Cypriot economy. Almost 40% of the island’s territory came under the control of the Turkish army. This area included most of the citrus growing land, the most developed tourist infrastructure and about 70% of the country’s capital and natural resources. Cyprus lost 65% of tourist beds, 87% of hotels under construction, 83% of general cargo handling facilities, 55% of the coastline, 56% of mining and quarrying output, 48% of agricultural exports and 46% of plant production.¹⁷ Cyprus lost the port of Famagusta which handled more than 80% of cargo, and the only commercial airport in Nicosia.

About 200.000 Greek Cypriots, a third of the island’s population, lost their homes and livelihood and became refugees in their own country. The unemployment rate rose to almost 30% in the second half of 1974.¹⁸ Real GDP contracted by 17% in 1974 and by another 19% in 1975. The volume of exports fell by 20.8% in 1974 and by 11.4% in 1975. Tourist arrivals

17. Theophanous A., “Economic Growth and Development in Cyprus 1960-1984”, *Modern Greek Studies Yearbook*, 7, 1991, p. 111.

18. Department of Statistics and Research, Ministry of Finance, *Historical Data on the Economy of Cyprus 1960-1991*, Republic of Cyprus, Nicosia, 1994, p. 187.

dropped by 43.6% in 1974 and by 57.9% in 1975. Moreover, thousands of Greek Cypriots contemplated leaving the country and many of them did so.

Recovery efforts were centred on stimulating private sector activity with the proper mix of monetary and fiscal incentives. The focus was reconstruction, infrastructure build up and export oriented activities. The government's role was instrumental in providing the right framework of expansionary policies and incentives.

By 1978 real GDP returned to pre-invasion levels. The essence of the “economic miracle” was the survival and the continuity of the Republic of Cyprus. By the early 1980s’ some Greek Cypriots who had emigrated began to return. Unavoidably this “miracle” had shortcomings such as the unplanned expansion of urban areas and of the tourism sector which had adverse environmental effects. But without it Cyprus would have collapsed.

2.3. The UN Initiatives and Accession to the EU

On 4 July 1990 the Republic of Cyprus submitted its application for membership to the then European Community. It was believed that the prospect would facilitate the solution to the Cyprus problem. The Turkish side did not see this move positively. The intercommunal negotiations under UN auspices continued. In the summer of 1992 the UN Secretary General, encouraged by the US and the UK, submitted what had come to be known as the “Ghali Set of Ideas” for the solution to the Cyprus question. These ideas became the focus and the major issue of the 1993 presidential elections in Cyprus.

G. Clerides, the newly elected president, in cooperation with Athens, paid greater attention than his predecessors to the European prospect of Cyprus. One and a half years after the start of Cyprus’ accession negotiations with

the EU (March 1998), the UN Secretary-General K. Annan, encouraged by the US and the UK, began a new process of negotiations in the fall of 1999 for a settlement. This time the stakes were higher. In Washington the prevailing strategic thinking was that the EU could offer incentives for addressing several key issues simultaneously and effectively. Three of the major objectives were the following: (a) solution of the Cyprus problem and accession to the EU of a unified island in 2004; (b) EU candidacy for Turkey and subsequent accession negotiations with the objective of full membership; (c) resolution of all Greco-Turkish problems by 2004 and thus the advancement of peace, security and cooperation in the Eastern Mediterranean.

At the Helsinki European Council in December 1999, an agreement was reached by which the Union encouraged a solution to the Cyprus problem prior to accession without making the solution itself a requirement for accession. Simultaneously, Turkey was given candidate status. Ankara was expected to contribute toward the resolution of the Cyprus question and to resolve its differences with Greece by December 2004. The Helsinki decisions in December 1999 were considered a potential turning point.

Despite difficulties, the UN process continued. The final plan, Annan V, which was submitted to simultaneous referenda to the two communities on 24 April 2004, was broadly considered as not balanced. Inevitably this was reflected in the outcome: 76% Greek Cypriots voted “No” and 65.9% Turkish Cypriots (and settlers) voted “Yes.” And this despite the fact that all along it was the Greek Cypriot side which had sought reunification, with the Turkish Cypriot side maintaining strong reservations and opting for a more separatist approach.

The Turkish side claimed that the Greek Cypriots did not want to share power and wealth with the Turkish Cypriots. In fact, the Greek Cypriots rejected a plan which would have legitimised the outcome of the 1974 invasion and turned Cyprus into a Turkish protectorate with the possibility of dramatic demographic changes as it provided for most of the settlers to stay. Greek Cypriots also

felt that the provisions of the Annan Plan reversed many of the gains of the imminent EU accession and that there were inadequate guarantees against the inflow of more Turkish settlers, let alone that Turkey would again be a guarantor power. Furthermore, the plan in essence dissolved the Republic of Cyprus and called for a new state entity. Given also the strict bizonality conditions it would have been very difficult, if not impossible, to promote an integrated society and economy. It should also be mentioned that the Plan had also provided a Supreme Court consisting of 9 members: 3 Greek Cypriots, 3 Turkish Cypriots and 3 foreigners. In cases of stalemate this would have allowed the foreign judges to exercise great influence in the affairs of the country.

Despite what was perceived as a legitimate rejection of the Plan, the moral high ground of the Republic of Cyprus was shaken in the aftermath of the referendum. There were many factors which contributed to this: (a) an effective Turkish communications campaign blaming the Greek Cypriots for their “No” vote; (b) the lack of a post-referendum strategy on the part of the Republic and (c) the stance of the strategic allies of Turkey which essentially wanted Ankara to be absolved of its responsibilities over Cyprus so as to open the way for EU accession negotiations.

Had the UN, the US and the EU pursued a balanced approach in the spring of 2004, it is likely that there would not have been a failure of the process. Only days after the referendum the EU accepted the Republic of Cyprus as a full member without a solution to the problem. While Greek Cypriots were accused of blocking a perceived solution with their “No” vote on 24 April 2004, in essence it gradually became clearer that Annan Plan V had reflected the Turkish philosophy and strategic interests. Had the proposed solution been accepted, it would have created several problems in Cyprus and beyond. Indeed, the implementation of such a plan would have turned Cyprus into a protectorate of Turkey.¹⁹

19. Palley, *op. cit.*; Theophanous A., *The Cyprus Question and the EU: The Challenge and the Promise*. Nicosia: Intercollege Press, 2004.

The victory of the left-wing candidate D. Christofias in the presidential elections of February 2008 raised expectations about rapid developments towards the resolution of the Cyprus problem as he focused on the process of bicommunal negotiations and called for “a Cypriot solution.”²⁰ But despite Christofias’ flexible stance again there was no breakthrough.

Despite the continuation of its occupation of the Northern part of Cyprus and the perpetuation of the problems with Greece (and despite Ankara’s commitment to resolve them by December 2004), on 17 December 2004 the EU granted Turkey a date (3 October 2005) for the beginning of accession negotiations. Ankara was expected to sign and implement the Customs Union Protocol with the ten new member countries, including the Republic of Cyprus. Consistent with past policy Turkey never met this obligation.

In January 2008 Cyprus joined the Eurozone. The introduction of the euro held exceptional importance for Cyprus as it would implicitly require a unified political and economic structure in case of a solution. Indeed, if a unified Cyprus is to meet its obligations as a member of the Eurozone it must follow uniform and consistent economic policies which require coordination and cooperation. Furthermore, one should also consider the rising aspirations of young Cypriots on both sides. A dynamic and integrated economy is required for more jobs and opportunities to be created.

At the same time several issues raised by the Turkish Cypriot side such as the objective for separate central banks and a new currency in the federal State, other than the Cyprus pound, have been invalidated by the introduction of the euro. Indeed, the euro has the potential to be a unifying tool in Cyprus, economically, socially and politically.

20. Implicitly, however, a side-effect of this approach is that it minimised the responsibility of Turkey in the decades-long stalemate on the island. It also served to water down Ankara’s violations of fundamental rights of Cypriots and of international law.

In federal arrangements it is of utmost importance to advance a common value system, objectives and institutions. The euro serves these objectives in many ways. At the same time the euro entails responsibilities in relation to fiscal prudence and raises the issue of broader economic policy coordination. In sum, Cyprus' adoption of the euro also influences the type of the solution of the Cyprus question: reunification presupposes an integrated society, economy and political structure.

3. Strategic Objectives

3.1. Political Strategic Objectives

In 2012 Cyprus finds itself in a unique situation. It has to address an existential threat as Turkey continues to occupy almost 38% of its territory and has been pursuing an aggressive policy of encouraging Turkish nationals to settle in the northern part of Cyprus thus changing the island's demographic structure. Furthermore, Turkey does not recognise the right of the Republic of Cyprus to exist and has not fulfilled the minimum requirements that it has undertaken toward the EU. Cyprus also has seen its moral high ground eroded. This outcome has been the result of several factors including the perceived geostrategic and geoeconomic importance of Turkey and, consequently, the support of Turkey by major powers, Ankara's effective public relations campaign in conjunction with the clumsy approaches of Cyprus.

The major objective of Cypriot policymakers is the reestablishment of the territorial integrity and unity of the country. The great imbalance of power in

the region led Greek Cypriots to concession after concession which makes it difficult for the electorate to approve.²¹ The major question is: what model could lead to reunification while sustaining intercommunal peace, security and cooperation?²² Negotiations have been taking place on the basis of a bizonal bicomunal consociational federal model. The record of such models is not encouraging. For example, Bosnia is facing serious problems²³ while even Belgium has repeatedly experienced government crises. Not to forget that Czechoslovakia opted for a velvet divorce in 1993.

This is not to suggest that Cyprus should pursue partition. It is essential to recall that Cyprus is no longer merely a bicomunal country. On the contrary there are also other notable numbers of EU and third-country nationals. It should be also noted that it is estimated that there are about 180.000 Turkish settlers in the northern occupied part of Cyprus and 70.000 illegal immigrants in the government controlled area.²⁴

A multi-canton functional federation based on an integrationalist approach may indeed lead to a viable unified State. Yet this option is not on the negotiating table. For years now, the basis has been a bizonal bicomunal federation whose definition and interpretation have been subject to serious intercommunal and intracommunal disagreements.²⁵ Furthermore, as already noted, the role of Turkey in the equation is overwhelming. Indeed, the dilemmas for the Republic of Cyprus in relation to the form of a solution are great.

21. For the Greek Cypriots the major issue is Turkey, not the Turkish Cypriots. Within this framework Greek Cypriots believe that their major adversary is Turkey, not the Turkish Cypriots. In this context there is a great imbalance of power.

22. Theophanous A., *The Political Economy of a Cyprus Settlement: The Examination of Four Scenarios*, PRIO, Nicosia, 1/2008.

23. McMahon P. and Western J., "The Death of Dayton: How to Stop Bosnia from Falling Apart", *Foreign Affairs*, 88(5), 2009, pp. 69-83.

24. The official position of the Cyprus government is that the settlers constitute a political issue and within the framework of a solution they should return to Turkey. It is understood that for humanitarian and practical reasons some of them would stay.

25. It is not a surprise that there are disagreements about the form of a solution. Most Greek Cypriots would like to have an integrationalist approach while most Turkish Cypriots would opt for a loose relationship. It is also worthwhile noting that the two communities are not monolithic.

Cyprus has to also reassess its foreign and security policy challenges and priorities. For years it has remained attached to a doctrine of nonalignment and demilitarisation, while Turkey maintains 40.000 troops of occupation on the island and, while two British sovereign bases operate on the island often offering facilities to NATO and the US.

The Republic of Cyprus aspires to hold a successful Presidency of the Council of the EU which it assumed on 1 July 2012 (*see more on this in part 3.4.*). This prospect has also enhanced the debate about the position and the role of Cyprus in the region, the EU and the international community. Within the framework of new developments Cyprus has improved its relations with Israel while maintaining its traditional ties to the Arab World. Russia also continues to be a strategic partner for Cyprus. In the post-Cold War international environment such relations are not only compatible with EU membership, indeed they have become the norm.

3.2. Economic Strategic Objectives

For years Cyprus took pride in the “economic miracle” that it had achieved after the Turkish invasion and its devastating repercussions. In the process the Cyprus economy was transformed into a service-based economy with sizeable tourist and trade sectors, and more recently with a rising financial services sector. Income variability declined but exposure to exogenous shocks has increased as the degree of economic openness and the international expansion of the banking sector advanced considerably. International banking and business services accounted for a considerable part of recorded growth in recent years.

Cyprus entered into a recession in 2009 from a position of financial strength. Following accession to the EU in 2004 and entry into the Exchange Rate Mechanism in the summer of 2005, efforts to consolidate the public

finances intensified. As a result, the historically large budget deficits turned into surpluses in 2007 and 2008. However, measures taken in the wake of the crisis and the economic recession that ensued led to a sharp deterioration of the country's fiscal position adding considerably to public debt. According to the government, fiscal consolidation measures taken toward the end of 2011 if fully implemented may bring the budget deficit down to 3% of GDP in 2012.

The banking sector poses risks by virtue of its size and concentration and its large exposure to the situation in Greece. Total assets are currently about eight times the GDP indicating that the financial sector is large relative to the economy. The banking sector is concentrated: three banks dominate the sector. As a result, problems in the banking sector can quickly escalate to systemic proportions with serious economic repercussions.

Growth in the period 2006-2008 was largely credit-financed and supported by strong real wage growth, low unemployment, significant foreign direct investments in the property market and an improving business climate. Rapid credit expansion was driven by excess liquidity in the banking system. Following the decision to enter the Eurozone in January 2008, the Central Bank of Cyprus lowered interest rates, reserves and prudential liquidity requirements on euro deposits. The Central Bank also reduced the minimum liquidity requirement on foreign currency deposits from 75% to 70%. Credit expansion in the period was also supported by an inflow of non-resident deposits and an expansionary fiscal policy.

The overheating of the economy in the period 2006-2008 gave rise to vulnerabilities. There is high private indebtedness as measured by the ratios of company loans to GDP and household loans to GDP. Domestic credit to GDP rose to 297% in 2011, compared with 185% of GDP in 2000 and 140% in 1995. The ratio of company loans to GDP rose to 159% in 2011

compared with about 90% in 2001. Household loans at the same time rose to 132% of GDP in 2011 from about 90% in 2001.

The financial sector managed to weather the global economic crisis relatively well and resident and non-resident deposits held steady in the period. However, the big domestic banks, with considerable assets in Greece, have taken a hit by the private sector involvement in the country's debt restructuring. As a result Cypriot banks face significant capital needs to meet the requirements of the European Banking Authority. In this context the government has underwritten an equity rights issue in favour of the country's second biggest bank, Laiki Bank, for up to €1,8 billion or about 10% of GDP.

The Cyprus economy remains exposed to considerable risks: these include a deterioration of conditions in Greece, an intensification of the debt crisis in Europe and adverse shocks to world trade and fiscal adjustment. The total exposure of the country to Greece in terms of loans and bond holdings prior to the recent write downs, was approaching €30 billion which amounts to about 150% of the GDP. A further deterioration of conditions in Greece and the rest of Europe would also impact on Cyprus banks and the real economy. Hopefully though this scenario will not be realised.

In any case though, the model that Cyprus pursued successfully for years now needs major overhaul. Cyprus has to address structural problems and issues. For example, the composition of the labour market has drastically changed. A major dimension of this change is the fact that in the last 25 years the number of young Greek Cypriots seeking higher education has doubled so that today more than two out of three hold such degrees at various levels. There are high expectations in relation to their employment prospects which the current model cannot satisfy.²⁶

26. The prevailing economic situation characterised by considerable imbalances, does not produce adequate growth to support job creation. As a result economic activity has stagnated and the unemployment rate has been rising. Not only is it necessary to correct the imbalances and generate growth, it is also important to further diversify the economy into more high value added activities including education and health.

Cyprus also needs to address internal economic imbalances. After months of deliberations some measures were introduced in December 2011 to reduce the budget deficit. Nevertheless, additional fiscal measures are required to restore public finances and regain access to markets. To achieve this the government needs to reduce the relative weight of the payroll of public employees and better target social outlays. It has to also revisit the social security system and the public pension system. Only when these issues are effectively addressed will it be possible to restore public finances and regain credibility.

Furthermore, one cannot underestimate the economic issues and the challenges of reunification in the event of a solution to the Cyprus question. These range from the issues of socioeconomic convergence, legal harmonisation and property arrangements.²⁷ Besides, Cyprus has to also address illegal immigration which has become a serious problem. Almost all illegal immigrants come to the government controlled areas from the occupied northern part. Despite difficulties to check the 180 km long dividing line Cyprus has not yet applied to join the Schengen Area due to perceived political difficulties and complications.

3.3. Energy Strategic Objectives

The energy sector is undergoing significant changes on a global scale deriving from changes in the reserve mix, geopolitical uncertainties and climate change. Recent discoveries of natural gas in the Levant region and continued exploration will no doubt have a significant impact on the economic dynamics of the region.

27. Theophanous A., *European Cyprus: Constitutional Structure Economy and Society. Accession and Solution Scenarios* (in Greek), I. Sideris, Athens, 2002; Theophanous A., *The Political Economy of a Cyprus Settlement: The Examination of Four Scenarios*, PRIO, Nicosia, 1/2008.

Natural gas reserves in the region can be substantial. According to a US Geological Survey report released in March 2010,²⁸ the Levant Basin that stretches from the Sinai Peninsula to the northern border of Syria and from the coast into the Mediterranean Sea to the western side of Cyprus may hold 1.7 billion barrels of recoverable oil and 122 trillion cubic feet of recoverable natural gas.

The discovery of natural gas in Cyprus' Exclusive Economic Zone (EEZ) therefore, has the potential to change the dynamics of economic growth on the island. The Houston-based energy firm Noble Energy, which has been exploring in Cypriot waters, following the first tendering round of 2007, announced in December 2011 the discovery of an estimated 5 to 8 trillion cubic feet of natural gas deposits.²⁹ A second round of exploration and drilling licensing was concluded in May 2012 with considerable interest shown by international energy companies.

A switch to natural gas as a primary source of energy will have far reaching implications. It will affect electricity production, improve the trade balance as the country transforms into an exporter of natural gas, and significantly reduce carbon emissions. Also, becoming an energy producer and natural gas exporter will improve energy and economic security.

Currently electricity production in Cyprus is fuelled primarily by oil with natural gas playing no role at all. Converting electricity production to natural gas would be a major investment and is likely to require many years to achieve. Noble Energy is exploring the possibility of building a liquefaction facility in Cyprus to utilise any natural gas discoveries for exports to Europe and Asia. Additional benefits would accrue from spin-off businesses.

28. United States Geological Surveys (USGS), *Assessment of Undiscovered Oil and Gas Resources of the Levant Basin Province Eastern Mediterranean*, Fact Sheet 2010-3014, US Department of the Interior, 2010.

29. Kasinis S., *The Status of Hydrocarbon Exploration in Cyprus*, Presentation in the 1st Energy Symposium Cyprus, Nicosia, 26 January 2012.

A liquefaction plant would be a massive investment for the size of the Cypriot economy. Field development, pipeline construction to the coast of the island and the construction of a liquefaction terminal would cost about 10 billion US dollars according to Noble Energy. The construction of the plant would result in a new energy hub in Cyprus making the island a key location on the Mediterranean energy map. Revenues for the Republic of Cyprus would be significant on a long term basis.

The regional interest to develop energy resources creates an opportunity for discussions among countries in the region either on a bilateral or multilateral level. Israeli Prime Minister Benjamin Netanyahu paid an official visit to Cyprus on 16 February 2012, the first ever by an Israeli Prime Minister. His talks focused mostly on closer cooperation between the two countries in relation to natural gas exploration and sector development. A pipeline can be constructed to link the finds in the economic zones of the two countries. Liquefied natural gas can then be exported to Europe or Asia. Israel and Cyprus may consider linking their power grids following a proposal by Israel's Energy and Water Minister provided that such a project is technically feasible and financially viable. Also Greece's Environment, Energy and Climate Change Minister, said that Greece and Cyprus will examine the financial and technical aspects of linking the Cypriot power grid with that of Crete, Greece's largest island, with the prospect of linking the Cretan grid to the continental grid.

Besides Israel, Cyprus has also signed agreements delineating the Exclusive Economic Zone with Egypt and Lebanon. This form of cooperation will establish the foundations for the alliances in the future. It should be noted though that Turkey does not recognise Cyprus' EEZ and this has already begun to create complications.

3.5. The Cyprus Presidency of the EU Council

Eight years after its accession Cyprus took on the helm of the EU for the first time on 1 July 2012. The challenge is significant considering the difficulties that the Union is undergoing and given the continuing political problem that Cyprus itself is facing.

Nonetheless, the Cyprus Presidency will be called to deal with some of the most critical issues for the Union's future. Having set out its theme for *Working towards a Better Europe*, based on the principle of solidarity and on social cohesion, Cyprus will, in practical terms, have to deal first with the Multiannual Financial Framework, and to continue the ongoing and intense negotiations towards a final agreement.

Also, it will focus on the Europe 2020 Strategy, which aims at resource efficiency and sustainable growth, highlighting the importance of a more competitive Union based on a low carbon and green economy. In addition, the Common European Asylum System features as a top priority as is relaunching the Integrated Maritime Policy. An equally urgent and complicated challenge to be addressed is growing unemployment, especially among young people. The Cyprus EU Presidency has stated that it will focus on actions promoting job creation with special emphasis on youth.

Days before assuming the EU Presidency Cyprus was forced to seek the support of the European Stability Mechanism. Viewed from another perspective, it is an opportunity to promote the necessary reforms.

The Cypriot government has asked Russia for an additional €5 billion loan in July 2012; it had received one amounting to €2.5 billion in 2011. The left-wing government did not want to be associated with austerity measures that would inevitably be part of a stabilisation programme with the EU.

Interestingly enough this raised questions in several EU capitals about the implications of the relations between Russia and Cyprus at a time when the geopolitical significance of the Eastern Mediterranean is increasing. Nevertheless, as already noted, despite the fact that there are strong cultural, historical, economic and political links between the two countries, no conflict of interest is created with the commitments of Cyprus to the EU.

Concluding remarks

It is rare that a country finds itself in a situation where there is such a divergence between the best possible and the worse outcome. Since the Turkish invasion of 1974, 38% of the territory of Cyprus remains under occupation. There was considerable dislocation in 1974 but subsequently the economy embarked on a path of remarkable growth.

Since the partial lifting of restrictions to free movement across the UN ceasefire line, on 23 April 2003, there has been more interaction between the two communities and enhanced economic relations. However, the new environment does not constitute free movement of labour and capital and the integration forces are not allowed to take their course. The most important challenge after accession to the EU and the introduction of the euro is the reestablishment of the country's territorial integrity.

Cyprus is a test for Turkey's ability to move forward with a new mentality.³⁰ Turkey cannot be seen as a truly democratic country while keeping the northern part of Cyprus under occupation and striving for the strategic control of the whole island.

Despite past failures, the membership of the Republic of Cyprus in the EU combined with Turkey's desire to join the EU or, even, achieve a strategic partnership agreement, provides a framework for a breakthrough. In an era of multiple identities, the EU can provide the context for a common European identity that would make a unified Cyprus work. At the same time Greek Cypriots and Turkish Cypriots can also nurture their own ethnic and cultural identities. The EU, in this respect, may play a significant contextualizing role even though it has not yet acquired its full potential in addressing more effectively major regional and international problems.

Given the years of unsuccessful attempts for a comprehensive settlement it is important to consider other possibilities: from the bizonal bicommunal federal model in which power is essentially concentrated in two constituent States to an integrationalist model of functional federation. For this scenario to materialise, however, in addition to the consent of the Turkish Cypriot side, it is of utmost importance that Turkey finally recognises the right of the Republic of Cyprus to exist.

Cyprus has to also address new economic challenges. In addition to effectively coping with the current economic crisis it is essential that it also moves toward a paradigm shift. Within this framework fiscal rationalisation is required as well as moving to new engines of growth. The emerging energy sector constitutes a remarkable challenge involving both economic

30. The inflexible stance of Turkey on Cyprus is a complex phenomenon. It is not only an issue of traditional policy perspectives and national pride. In fact Turkish officials have repeatedly declared that because of geopolitical reasons Cyprus would have been considered important for Turkey even if there were no Turkish Cypriots on the island.

as well as political dimensions. It is essential that Cyprus positions itself in ways that allow it to play an enhanced role in the region and the EU.

52 years after Cyprus' establishment the EU Presidency is a huge stepping-stone towards the Republic's 'adulthood.' Under difficult circumstances it helps re-confirm its sovereignty and status. The government has repeatedly stated that the Cyprus problem will not interfere in the execution of the Presidency and that it shall handle the operation in particular issues pertaining to Turkey with an absolute sense of objectivity. It is fully aware, that if handled efficiently, the EU Presidency will provide credibility and future gains for its own objectives.

Postword

by Aziliz Gouez (*Associate Research Fellow at Notre Europe*)

Engraved on the hillsides of the Pentadaktylos, the flag of the ‘Turkish Republic of Northern Cyprus’ imposes itself on the vision of those strolling the streets of Nicosia’s Greek quarters. The impression is even more dramatic at dusk: lit up for the first time on 28th October 2003, on the date of the Greek national holiday, and illuminated every night since then by thousands of lanterns, the Turkish star and crescent appear to float above the town. In a written question to the Council, dated 21st October 2009, one Cypriot MEP gives the full measure of the offense: with its 425 metres long and 250 metres wide, flanked by the Kemalist slogan *Ne mutlu Türküm diyene* [‘How happy is he who calls himself a Turk’], the giant flag occupies a total surface of more than 200,000 square metres. One may smile at such meticulous exactitude.

Yet, more sadly, being partly occupied by a third country which is itself a candidate for EU accession – namely Turkey – the Republic of Cyprus stands out as a unique case since the end of the Cold War in Europe. The island’s division also recalls us back to an unfulfilled promise: that of the European integration’s capacity to soothe territorial conflicts and nationalist hardening – in Cyprus and elsewhere. For the situation at the Cypriot frontier-town conjures up

other frozen conflicts of the European South-East. In Mostar, the huge Catholic cross that stands on top of mount Hum, on the Western bank of the Neretva, is perceived as a provocation by the Muslim population; in Skopje, the Millenium cross planted by the Macedonian Orthodox church on Vodno mountain is the object of resentful comments among the Albanian minority, while the massive equestrian statue of Alexander the Great erected at the centre of Plostad Makedonia rears up to boldly defy neighbouring Greece, who contests the former Yugoslav Republic's share of the Hellenistic legacy and therefore blocks the progress of her accession negotiations with the EU.

Such symbolic devices, which weigh up identity balances by the kilo of bronze or the square meter of barren land, are at odds with the supranational ideal fostered by the European project. The Republic of Cyprus taking over the rotating Presidency of the Council of the EU for the first time could have been the occasion for a great debate on the future of these 'suburbs of Europe.' Instead, the new Presidency took office in the midst of the turmoil affecting the island's banks, and right after the request for financial aid put forward by Nicosia in the last days of June 2012. Who cares for the fate of North Cyprus, Bosnia-Herzegovina or Serbia, when the heart of the Union is under siege? The Republic of Cyprus is the fifth country in the Eurozone to ask for external help, but it distinguished itself by not limiting itself to soliciting the ECB and IMF. President Christofias, the only communist head of state in the EU, and a professed admirer of the Chinese and Russian regimes, made it known that he was considering the possibility of requesting a loan from these two countries.

This was particularly unfortunate, arising at a juncture when the European debt crisis highlights the frailty of the sense of European identity, and when national stereotypes opposing Northerners and Southerners are resurfacing. Whether the Cypriot Presidency will be able to make up for its troubled debut within the few months it has in office remains an open question.

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Cyprus and the EU: Appraisal and Challenges

Since 1 July 2012, Cyprus is assuming the six-month rotating presidency of the Council of the EU for the first time since its accession to the EU in May 2004. It is a huge challenge for this country, severely hit by the financial and economic crisis affecting Greece and Europe and part of which is occupied by another country, itself candidate to enter the EU.

An interesting aspect of the Policy Paper is to confront an “external” and an “internal” viewpoint on the Cyprus issue. It contains two contributions by Jean-François Drevet and Andreas Theophanous giving an appraisal of the situation in Cyprus and presenting the main challenges the island has to face.

The contributions deal with the past, from the birth of the Republic of Cyprus to the accession to the EU taking into account both the economic and political aspects. They also review the main current strategic objectives, present the programme of the Cyprus Presidency of the Council of the EU and assess the feasibility of the reunification.

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