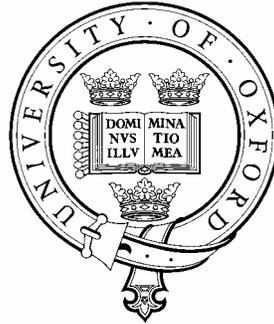


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Cyprus after Accession: Thinking Outside the Box

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Workshop on Cyprus, 10-11 March 2006

Cyprus after Accession: Thinking Outside the Box

Workshop Outline

The role of Cyprus as an EU Member State and dynamic regional hub in the Eastern Mediterranean deserves more study than it has received. This has political and economic dimensions of potentially great importance for Cyprus and for the EU itself. The goal of this workshop, held under the Chatham House Rule, is to explore this issue reflecting on the light this perspective casts on reunification approaches.

Since accession to the EU in 2004, Cyprus has marked Europe's south-eastern frontier. With its regional role thus enhanced, there is an ever-pressing need to explore the ways in which Cyprus can utilise this role and the impact this would have on the island's reunification. This workshop aims to do exactly this by bringing together policy-makers, experts, academics and professionals to discuss the opportunities and challenges of membership.

The workshop will be held under the Chatham House Rules. The participants in the workshop are invited to discuss the current state of politics in Cyprus and to assess the political priorities on both sides. Taking these priorities into consideration, they will also discuss current possibilities for reunification. The workshop will thus address the following questions:

- a) From the point of view of local actors, what are the major opportunities in the early years of EU Membership? What political and economic role would they like to see Cyprus play in the region?
- b) What incentives and challenges face Cyprus from the side of external / EU players, as the role of the island evolves in the EU and the region?
- c) Does this evolving political and economic context favour convergence among the communities in Cyprus, and does it shed new light on approaches to resolving the reunification issue?

The workshop will close with a panel discussion of priorities and options for the future of the island.

Taking place almost two years after the island's accession, this event will draw on and refocus the debate on Cyprus' relationship to EU structures. This builds on previous work on Cyprus carried out by South East European Studies at Oxford (SEESOX) that included a workshop held in 2003, and which explored the prospects for reunification in the light of the Annan Plan. This year's workshop aims to consider questions raised by these new conjectures.

PROGRAMME

Fellows' Dining Room, Besse Building, St Antony's College, 62 Woodstock Road, Oxford

10 March Workshop 8:30a.m. – 4:15 p.m.

11 March Conclusions 9:00 – 12:30 a.m.

LIST OF PARTICIPANTS

Mustafa Akıncı, Peace and Democracy Movement (BDH) leader

Floya Anthias, Sociologist, Oxford Brookes University

Michael Attalides, Sociologist, Intercollege

Mustafa Aydın, International Relations Chair, Economy and Technology University, Ankara

Gilles Bertrand, Institute d'Etudes Politiques de Bordeaux

Derya Beyatlı, Bearingpoint

Kypros Chrysostomides, former Republic of Cyprus Government spokesman

Ayşe Dönmezer, Bearingpoint

Murat Erdal, St Cross College

Emine Erk, Lawyer

Ömer Fazlıoğlu, Economic Policy Research Institute (EPRI), Ankara

Marrak Goulding, St Antony's College

John Groom, University of Kent

Ayla Gürel, Peace Research Institute Oslo, Cyprus Centre

Takis Hadjidemetriou, former Head of Cyprus EU negotiation team

Nikos Kotzias, Senior Associate Member, SEESOX

Petros Liacouras, Piraeus University

James Ker Lindsay, Kingston University

Anne McNess, Foreign and Commonwealth Office (FCO)

Carlos Martinez Mongay, EU Commission, DG ECFIN

Elaine Papoulias, Kokkalis Program, Harvard University

Zenon Pophaides, Economist, United Democrats party

Edmond Rhys-Jones, FCO

Philip Robins, St Antony's College

Özdem Sanberk, Director, Turkish Economic and Social Studies Foundation (TESEV)

Derya Sevinç, Economic Policy Research Institute (EPRI), Ankara

Harris Sophoclidis, Cypriot Brotherhood, London

Ahmet Sözen, Director, Cyprus Policy Center

Angelos Syrigos, Panteion University, Greece

SEESOX Convening Committee:

Othon Anastasakis

Olga Demetriou

Kalypso Nicolaidis

Kerem Öktem

Max Watson

Workshop Programme: 10th-11th March

9th March

7.30 pm Dinner at Al-Shami restaurant, 25 Walton Crescent

10th March

8.30 am Registration and coffee/tea

9.00 am **Session I: What has changed since the Referenda and EU Accession?**

This session seeks to map the current situation, as shaped through the political developments of the last two years. Questions to focus on include:

- From the point of view of local actors, what has changed in Cyprus and in its relations with other EU Member States and the East Mediterranean region?
- How should we understand the new reality on the ground in Cyprus:
what political and economic incentives have been created, consciously or inadvertently;
and where are current dynamics taking us?

10.45 am Coffee/Tea break

11.00 am **Session II: The Status Quo: Comfort Levels, Opportunities and Costs**

In this session, the discussion will explore the current situation in depth, mainly around the following questions:

- To what extent are local actors becoming comfortable with the status quo on the island?
- How does this relate to opportunities for the future (especially considering Cyprus' new role as an EU hub in the Eastern Mediterranean)?
- Is the status quo consistent with realising these opportunities in the EU and the region?

12.45 pm Lunch

2.00 pm **Session III: Convergence and Reunification**

The final session will address these questions:

- Do evolving perceptions and aspirations in Cyprus, the EU and the region favour convergence among the communities in Cyprus?
- What new light do the considerations discussed in earlier sessions shed on approaches to reunification?
- What issues would be valuable to research and explore more deeply?

3.45 pm **Wrap-up session (with coffee/tea)**

4.15 pm End of day 1

7.00 pm Dinner at St Antony's College

11th March

9.00 am Conclusions (with coffee / tea)

12.30 pm End of workshop

1.00 pm Lunch (tbc)

What's in the Box?

Background Documents relating to workshop discussion

Outline:

The following documents have been prepared in the aftermath of recent developments regarding Cyprus (27 February – 5 March). The convening committee believes that these timely developments offer great potential for sparking off the discussion at the workshop. We therefore present below a summary of what we perceive to be at present the main issues regarding the way Cyprus' EU membership affects its role in the region and the prospects for reunification. The aim is to establish a common point of departure for the workshop. We look to participants for their different views and knowledge, deriving from each of their areas of expertise, for an in depth understanding of these issues.

This presentation is followed by two sets of annexes, the first of which consists of the documents received by participants, outlining points which in their view are worthy of exploration in the workshop. The second set of annexes consists of official documents recently published, which participants may find helpful to use for reference during the workshop.

Recent Developments:

On 27 February the EU Council finally approved the €139m aid package for development in northern Cyprus. The other half of the €259m proposed in the aftermath of the 2004 referenda by the Commission dropped, as the deadline lapsed. The aid had reportedly been aimed mainly for agricultural projects and the development of small- and medium- sized companies. The agreement to release the funds was obtained as the Republic of Cyprus was reassured on two counts:

- 1) That direct trade agreements with northern Cyprus will be subject to unanimity voting rather than qualified majority voting as the Commission had proposed (hence using the protocol provisions rather than “third country” treatment).
- 2) Media reports indicate that further discussions on direct trade might be linked to a series of other issues, including Varosha.

The latter point, if correct, raises the question as to whether there is a “Europeanisation” of issues like Varosha (in the sense of moving from a UN into an EU discussion sphere).

Together, these two points appear to have dampened the welcoming of the aid package on the part of the Turkish Cypriot leadership, particularly because of the loss of the first installment of the originally proposed package, and the fact that the package had now been de-linked from the discussions on direct trade.

The questions raised by this announcement bear on the opportunities (and perhaps limits to them) for reunification in the framework of Cyprus' EU membership. At the same time, the announcement offers an occasion to think about development opportunities for the future and the ways in which Cyprus might utilise its role in the Eastern Mediterranean for such development.

On the heels of the Council's decision, on 28 February, the president of the Republic Tassos Papadopoulos met the UN Secretary General Kofi Annan in Paris. In a common statement published after the meeting, it was stated that the technical committees established in the process of finalising the Annan Plan were to resume discussions. The issues of demilitarization, de-mining and Famagusta were also discussed. For the local media, the meeting has raised expectations about a possible breakthrough in what many observers consider a deadlock in the negotiations since the referenda.

Local interpretations of such prospects are obviously a crucial point of departure for addressing on the one hand the UN vis-à-vis EU roles but also the opportunities offered by resumption of cooperation / talks at these levels in terms of Cyprus' regional role.

Finally, a third set of developments relates to the current frame of the status quo. With the Xenides-Arestis case before the European Court of Human Rights (a case relating to Greek Cypriot property rights in the closed area of Varosha), some analysts have suggested that discussions relating to Famagusta might also bear on this area of the human rights problem. Within the last month, the Republic has also restored use rights of a Turkish Cypriot property in the south (Arif case), while a law has also been put to the parliament, which would grant property titles to Greek Cypriot refugees residing in non-Turkish Cypriot properties. On the other hand, on 1 March, a group of Turkish Cypriot activists were refused their application to participate in the forthcoming parliamentary elections of 21 May, claiming their right to occupy the 24 seats reserved for representatives of the Turkish Cypriot community under the 1960 constitution.

These developments may bear on the shape of future high-level discussions. More immediately however, they open up questions relating to the ways in which property, political and civil rights issues are handled within the status quo. Questions of human rights might indeed be thought also in the wider context of Cyprus' regional role, relating for example to the island's position in terms of regional migration routes and the impact of socio-cultural change on convergence between the two sides.

Annexes A: Contributions

Mustafa Akıncı

Peace and Democracy Movement (BDH) Press Release on 6 October 2005 (on the announcement of the opening of EU-Turkey accession negotiations)

2006-TO BE A NORMALIZING YEAR

As “Accession Negotiations” have started between European Union and Turkey, it is envisaged that during the process the relations between Turkey and the Republic of Cyprus (which is represented only by Greek Cypriots) will be normalized and Turkey will have to open its airports and sea ports for the Customs Union agreement to function for all new member states including Cyprus.

With the accession of the Republic of Cyprus to the European Union on 1 May 2004 and now Turkey’s start of “Accession Negotiations” on 3 October 2005, new parameters have emerged. With the new situation and new parameters, new policies have to be developed in order to guide us to the solution of the Cyprus problem.

If in 2006 Turkey starts normalizing its relations with the Republic of Cyprus under Greek Cypriot administration and the Republic of Cyprus does not normalize itself internally, the rights of Turkish Cypriots will further deteriorate and Turkish Cypriots will further be pushed into uncertainty.

Due to this, we feel that a normalization process will have to start in Cyprus as well.

For this we invite all the related, interested parties, mainly the two communities, to consider the suggestions and proposals which we have developed in our party organs.

1-) The goal in Cyprus should be to establish a bi-communal, bi-zonal federation by keeping in mind 1977-79 high level agreements, political equality as envisaged in the Annan Plan and 1960 Constitution and treaties which created the Republic of Cyprus.

Intercommunal talks should start under the UN auspices as soon possible.

2-) Until we reach the Federal state status, a normalizing process should start with the participation of Turkish Cypriots in the 1960 Constitutional organs. (Such as, House of Representatives and Council of Ministers.)

In this regard we propose the following:

a-) The conditions should be created for the President of TRNC to assume the responsibilities and authorities of the Vice-Presidency of the Republic of Cyprus.

b-) The conditions should be created for Turkish Cypriots to assume the responsibilities and the authorities of the ministries in the Council of Ministers as envisaged in the constitution.

c-) The conditions should be created for Turkish Cypriots to take their seats in the House of Representatives as envisaged in the constitution.

3-) When Turkish Cypriots assume their duties in the House of Representatives, a joint ad-hoc Constitution Committee should be formed with equal representation of the two communities. The committee with the help and support of NGO’s from both communities should work and prepare a Federal State Draft Constitution.

4-) The airports and sea ports of the island should open for operations under a joint administration composed of members of both communities and under the supervision of EU for the free trade of all related parties.

- 5-) Turkey should start normalizing its relations with the Republic of Cyprus where the relations of two communities have already started normalizing. In this regard Turkey should open its ports to the Republic of Cyprus airplanes and vessels.
- 6-) Having in mind that the Federal Republic of Cyprus will have two federated states and the political determination expressed by Turkish Cypriots on 24 April 2004, Cyprus Turkish State should start to organize. The Administration should be handed over to Turkish Cypriots in its real sense. Turkish Cypriots should be masters of their house and be able to make their own decisions.
- 7-) A specific number of Turkish troops should leave the island, keeping in mind not to create security concerns.
- 8-) Varosha, under the supervision of United Nations and/or European Union, should be handed over to its former inhabitants.
- 9-) Under the supervision of the Council of Europe, a census should be held on both sides of Cyprus.
- 10-) The Finance Regulation which amounts to 259 million EURO's for the Turkish Cypriots, should be implemented mainly for the purpose of harmonization process with EU.

BDH press release 1 March 2006 relating to participation of Turkish Cypriot in the parliamentary elections in the Republic of Cyprus:

**WE STRIVE FOR “A BI-ZONAL BI-COMMUNAL FEDERATED CYPRUS”.
BASIS FOR OUR COMMUNAL RIGHTS STRUGGLE IS THE CONSTITUTION
OF 1960.**

Turkish Cypriots undertook a massive struggle for a settlement based on the Annan Plan. However, the settlement could not have been reached as a result of the ‘No’ vote of Greek Cypriots. A common understanding that the Cyprus Problem will not be settled in the near future has begun to form among all related States and the Problem is suspended.

Lack of a settlement has negative effects on Turkish Cypriots and the political and legal struggle on TRNC basis had been pursued in vain. Measures like the Property Law designed to give Turkey more time do not provide any remedies and the time lost increases the risk of losing our communal rights within the Republic of Cyprus.

We are being pushed to the position where there is no characteristic of a community, even with no minority rights within a unitary Cypriot State, unless a communal initiative is taken to stop this. As Turkish Cypriots, we cannot expect others to solve this problem on our behalf, respecting our communal rights!

Cyprus has become a pain within the EU as the result of a lack of solution to the problem. This will also harm Greek Cypriot Side, Turkey and Countries in the region.

Trying to reach a settlement by pressurizing, exposing or trying to oppress one of the parties is against the principles of a peaceful settlement. The Republic of Cyprus can only act on the interests of two communities, as a party to the settlement process, only by the participation of Turkish Cypriots in the administration.

Greek Cypriot Leadership is trying to erode 'Turkish Cypriots' rights of political equality by pressurizing Turkey within her EU membership process. Established by two communities as founding partners, Republic of Cyprus is unilaterally used by the Greek Cypriot Leadership as a powerful tool. As a result of these efforts, a law has recently been adopted abolishing the rights of the Turkish Cypriots to elect and be elected in separate lists, which was a right based on the 1960 Constitution of Republic of Cyprus of 1960. This is against the Constitution.

Turkey on the other hand has annexed the settlement of the Cyprus Problem to her EU membership process and the membership itself, failing to pursue proactive policies. Current TRNC Government, voted into power with the hopes of forcing an early settlement cannot initiate policies to this end either.

The basis to a settlement that can be accepted on the terms of International law and that will be subject to the struggle for communal rights is the basis of 1960 Constitution. All communal rights provided by the Republic of Cyprus to us as the founding partner should be claimed and on this basis, and a settlement should be reached by negotiating all issues within the framework of 1977 and 1979 High Level Agreements, UN Processes and the Annan Plan, making bilaterally accepted changes.

Continuation of unilateral use of the EU member Republic of Cyprus by the Greek Cypriot Leadership will prolong a political settlement. Giving Turkish Cypriots a voice in this platform will equally safeguard the rights of both communities and facilitate an early settlement.

We call upon our community, NGOs and political parties to claim our communal rights based on the Constitution of the Republic of Cyprus of 1960, so as to create a new communal dynamic.

We, the undersigned 'Turkish Cypriots and EU citizens, decided to practice our rights to elect and be elected in separate electoral lists, as it is stated in the Constitution of the Republic of Cyprus of 1960, at the election of the House of Representatives of the Republic of Cyprus announced to take place on 21st May 2006.

We call upon our community to express solidarity in the struggle of claiming our communal rights based on the Constitution of 1960 and in reaching a bi-zonal, bi-communal federated Cyprus.

Michalis Attalides

I. What has Changed since the Referenda and EU Accession

1. As a member of the EU, the Republic of Cyprus has a say on relations between Turkey and the EU. Turkey is quite exonerated after the Turkish and Turkish Cypriot acceptance of the Annan Plan, but it is clear that if the Cyprus problem is not resolved, various complications will arise. (Complications may arise in any event given the state of public opinion in some EU countries).

2. Prompted by the US and Koffi Annan, international and European attitudes tend to favour “the ending of the isolation of the Turkish Cypriots”. The Cyprus Government has supported that part of this which involves economic aid.
3. The limited freedom of movement which now exists in Cyprus was initiated after the signature of the Cyprus-EU Accession Treaty. This has given the possibility to Turkish Cypriots to work in the government controlled areas, obtain Republic of Cyprus documentation and use the Republic’s medical facilities, and to Greek Cypriots the ability to go and see. To both it has given the opportunity to learn that they are not a threat to each other’s life. It has also given greater salience and immediacy to property questions.
4. Many Turkish Cypriots have interpreted the Greek Cypriot “no” as rejection.
5. There has been an enormous growth in the Turkish Cypriot economic situation, to some extent due to work in the south, but also due to exploitation of Greek Cypriot owned properties in the occupied areas, which has given rise to great apprehension even in pro solution Greek Cypriots.

II. The Status Quo: Comfort Levels, Opportunities and Costs.

1. Post facto, even some Greek Cypriots who voted “yes” were relieved with the continuation of a familiar, successful and democratic mode of government and with the rejection of an enormously cumbersome and hardly comprehensible constitutional and legal system.
2. However crucial issues for Greek Cypriots remain unresolved and cannot be resolved without an overall solution: The security threats deriving from the presence of Turkish troops in the occupied area and from the presence and probable increase in settlers from Turkey, and the worries both from the usurpation of Greek Cypriot properties in the north and the Turkish Cypriot legal claims in the south.
3. For Turkish Cypriots, economic conditions have vastly improved, and are likely to continue improving. Turkish Cypriot leaders are also more acceptable to governments internationally. These are the kind of developments which could make continuing division attractive.
4. However, there is no immediate prospect, without an overall solution, of Turkish Cypriots participating either in the government of Cyprus as a whole, or in EU institutions. This is why some commentators speak of a “Taiwan situation” evolving.
5. Dissatisfaction on the Turkish Cypriot side due to the Greek-Cypriot rejection of the Annan Plan, and on the Greek Cypriot side because of the exploitation of Greek Cypriot properties in the north as well as sniping between politicians on the two sides is resulting in a negative atmosphere which is not conducive to communication, despite the physical possibility for such communication.

III. Convergence and Reunification.

1. The new context in which Cyprus finds itself should very much facilitate a solution. Membership of the EU creates a new context and framework which has the potential of making both communities feel more secure and think in innovative ways. This is probably more important than the fact that it has also heightened Greek Cypriot expectations about the nature of a solution and generated economic and other forces which make many Turkish Cypriots feel more comfortable with their situation.

2. For many Greek Cypriots, EU accession, together with the result of the referendum, has shaken the foundation of traditional views on a possible solution.
 3. However the increased security offered by the EU environment, and the greater demands on Turkey due to its negotiations with the EU, the certification of the possibility of extensive contact without any sign of violence in recent months, and the opportunity of Turkish Cypriots to inspect the current nature of Greek Cypriot society and the institutions of the Republic of Cyprus, may open up new possibilities.
 4. It is possible that the full discussion on "The Future of Cyprus" has not yet really developed.
-

Gilles Bertrand

1/The Dilemma of the TNRC: «Grey area» or EU harmonization?

Cyprus is an EU member, but what exactly about the northern zone/occupied area/Turkish Republic of Northern Cyprus (TNRC) (according to your position: GC, TC, official, dissident, academic, etc.)? It will now receive €139 millions but under conditions; Mehmet Ali Talat can easily meet diplomats and politicians for the EU. Jack Straw even met him at his (so called, according to your position) presidential palace. Turkish Cypriots are EU citizens as well as Greek Cypriots; there is an official commitment for EU harmonization. Nevertheless, there is no way for the «international community» (and especially the EU) to recognize TNRC as a sovereign state or as an "autonomous body". TNRC economy is still a «grey area» (the concept forged by Alain Minc and developed by Susan Strange) with its casinos (1 for 10 000 inhabitants), suspect banking sector, real estate boom on illegal grounds (on properties belonging to Greek Cypriots). If Mehmet Ali Talat administration let this situation going on, EU would be more and more suspicious, and the reunification of the island would face a more complex problem than previously. On the other hand, if M.A. Talat chooses a tougher policy of harmonization, he will probably loose investments and additional taxes for his administration and a card to negotiate with the government of the Republic of Cyprus.

2/Electoral processes vs. negotiation process

It is now said by some observers that the «window of opportunity» to solve the Cyprus problem soon is very narrow due to elections: legislative elections in the Republic of Cyprus in May this year, probably next year (November 2007) in Turkey, and presidential election in the Republic of Cyprus in February 2008. Is it possible to avoid such obstacles? By appointing consensual (accepted by all political parties of each side) negotiators? It seems impossible. By suspending the electoral process in the Republic of Cyprus until the end of a new round of negotiation? Impossible. By doing new elections in the North at the same time than in the South? Difficult, if not impossible, after two legislative elections (2003, 2005) and one presidential (2005).

Session 1

A.

1. The Greek Cypriots' trust vis a vis the EU is diminishing as they expected the latter to become more actively involved in the efforts to reach a political settlement to the Cyprus issue. Prior to accession the Greek Cypriots believed that once Cyprus joins the Union the political settlement would be based on and be compatible with the principles of Community law.

2. Some of the Member States are sceptical about the continuous involvement of EU institutions with the Cyprus issue. As a result the credibility of the Cypriot government and its ability to make allies with countries that oppose Turkey's accession are adversely affected.

3. Cyprus' threat of using the veto power in the process of the accession negotiations with Turkey is seen negatively by the EU and has brought tension at the local and regional level.

4. Cyprus policy in the EU focuses exclusively on the issue of the Cyprus problem. As a result Cyprus does not actively participate in the ongoing discussions at the community level regarding the problems the Union is confronted with and the ways to turn the EU into a strong political actor.

5. The Middle Eastern countries including Israel reacted positively to Cyprus' accession. This potentially strengthens the EU's chances of becoming an important actor in the Middle East.

B.

1. The bicomunal relations are distinguished between the relations at the leadership level and the relations at the people's level. The former are tarnished by problems and tension. On the other hand the relations among the Greek and Turkish Cypriot people are constantly improving by exchanges among artists, writers and other civil groups.

One should note that the EU has significantly contributed towards the advancement of relations among the two communities.

2. As far as the economy is concerned the financial situation of the Turkish Cypriots has improved. The Greek Cypriots are going through a phase of social tensions as they are faced with changes in the production and employment conditions especially in the area of agriculture.

3. The political disparities among the two communities are growing bigger due to their different rhythms of development and the peculiarities of the commercial and economic activities of the Turkish Cypriots. Two additional factors add to the complexity of the problem:

(a) the non implementation of the *acquis* in northern Cyprus and

(b) the non participation of the Turkish Cypriots in the work of the EU institutions

4. As time goes by with no political settlement the disparities become bigger and the possibility of reaching an agreement becomes slimmer.

Session II

1. It is obvious that there is no political will to reach a settlement. This explains why the negotiations end up in decisions concerning confidence building measures which will probably not materialize for a long period of time.

There is a silent understanding among the two sides that this policy instead of bringing us closer to a solution is in fact cementing the separation of the island.

2. Once a settlement is reached the regional cooperation among Cyprus and its neighbours will receive a new impetus. Cooperation among Christians and Muslims can have a significant symbolic dimension which goes beyond the geopolitical location of Cyprus. Such cooperation will be also beneficial at the political and economic level.

Greek Cypriots should note that a possible amelioration of the bilateral relations with Turkey will be beneficial for the whole of Cyprus.

2. I personally believe that the status quo is detrimental for Cyprus in general and for the Greek Cypriot community in particular. The status quo and the separation of the island are incompatible with the principles and values as well as the economic and social conditions in the EU.

James Ker-Kindsay

Encouraging International Engagement with Cyprus

It has often been said by Cypriots from both communities that if left alone the people of Cyprus would be able to reach a settlement. Most observers have traditionally regarded this statement with a mix of mild amusement and deep scepticism. This view has seemingly been confirmed in the period since the referendum. Over the course of the past two years, when international attention has been minimal, the two communities have made no progress whatsoever towards reunification. Indeed they appear to have moved further apart. The initial optimism that followed the opening of the line in 2003 has given way to pessimism. While the political leaders of both communities have resorted to increasingly hostile language, at the popular level the level of contact between the two communities has declined. While Greek Cypriots may still travel to the north to see their properties, and Turkish Cypriots may cross to the south to do their shopping, bicommunal contacts aimed at fostering greater communal understanding have tailed off.

This deterioration can be explained by a number of factors. For a start, the legacy of the referendum has played a part. On both sides of the line there is a residual sense of frustration, betrayal and hostility over the events of April 2004. However, it has also been shaped by political leaders of the two communities. For example, the continued

determination of Turkish Cypriot authorities to assert their sovereignty and demand that Greek Cypriots show their passports or ID cards to cross the line continues to create resentment among Greek Cypriots. Meanwhile, external observers view this demand as pointless. At the same time, the Greek Cypriot leadership has also exploited this issue for its own ends. Whether out of a misplaced fear that by showing identification Greek Cypriots are endorsing the 'occupation regime', or out of a desire to limit contacts between the two communities, the Cypriot Government has pursued a policy of discouraging people from crossing the Line. This has also served to damage its international credibility. Few, if any, outside observers would claim to believe that by crossing the line Greek Cypriots are recognising the existence of the Turkish Republic of Northern Cyprus. Meanwhile, both sides have taken to resorting to petty insults and abuse when discussing the policies and actions of the other community. Each side appears keen to prove that the leader of the other community, either Talat or Papadopoulos, must now be regarded as the new 'Denktash'.

The result of this deterioration in relations has been a growing belief in international quarters that the two communities in Cyprus are simply unwilling and unable to make progress without the involvement of outside parties. In the current climate, this belief has served to polarise opinions. There appears to be a growing number of observers who feel that the international community has spent far too much time on the Cyprus issue. The two communities cannot live with one another and that the best answer would be to look at ways of formalising the partition that currently exists. Balanced against this, there are those who believe that further reengagement with the intention of reaching a settlement that reunites the island remains the overall goal. However, this involvement is unfeasible at present. The level of hostility shown towards the United Nations at the time of the referendum, coupled with the attempts to discredit the UN Secretary-General personally, have made it impossible for external parties to become engaged without a clear indication that their involvement is wanted by both parties. Either way, no new initiative can be expected unless the two communities make it clear that they truly want a new process to begin and that they are sincere about reaching an agreement. As Annan said just a few days ago, "What I want to see is a much narrowing gap between words and actions."

Of course, there are those in both communities who appear to favour the current situation and view it as a good opportunity to buy time. Many Turkish Cypriots believe that they are winning the argument for separation. This may be so. However, the likely solution on offer will almost certainly lead to deep disappointment. In all likelihood, the Turkish Cypriots will have to make do with a Taiwan-style situation – at the very best. The TRNC might be able to gain recognition from some states. However, it will never earn recognition by the EU, let alone be able to join the Union. At worst, there is a good chance that the TRNC might simply be absorbed into Turkey. If Turkey decides not to join the EU, or is at some point rejected, annexing Northern Cyprus might be the best way to 'solve' the Cyprus issue. Rather than having to support the TRNC, Turkey could transform the conflict into an issue of contested territory. After all, it is not the existence of Turkish Cypriot territoriality that has posed the problem for Ankara. Instead, the problems derive from the illegal declaration of independence. Annexation would solve many of these difficulties. The likely repercussions of such a move would, in all probability, be fairly manageable. There may well be a Security Council Resolution condemning the move. However, it is unlikely that the international community would impose indefinite sanctions on Turkey.

This scenario should give Greek Cypriots pause for thought. However, many believe that, far from being harmful, the current situation is in fact playing into their hands. Specifically, there is a view that Turkey's EU accession process will eventually create the conditions for a settlement that better meets Greek Cypriot hopes and expectations. Some even feel that it might even lead to the creation of a unitary state where the Turkish Cypriots have minority rights, rather than a federation based on political equality. While it is possible that this might be the case, it is by no means as probable as is widely believed. The 'European Solution' is highly risky. For a start, there are deep reservations among other member states about the prospect of Turkish membership and there is a good possibility that it will be blocked at some point; maybe even at the final hurdle if France and Austria insist on holding referendums. At the same time, there is growing resentment in Turkey about the way in which it is being treated by the EU. Discontentment is likely to follow when the accession process begins in earnest. To sit back and hope that the EU will provide an opportunity for a 'better' settlement ten or fifteen years hence strikes many observers as, at best, unrealistic and dangerous at worst. The all-or-nothing gambling mentality that has for so long shaped Greek Cypriot approaches to successive peace initiatives needs to be set aside once and for all in favour of an approach that stresses compromise.

In conclusion, it is clear that international involvement is required if there is to be a settlement of the Cyprus issue. Sadly, the past two years have graphically illustrated just how little progress can be made when the two communities are left alone. However, with any number of other issues competing for international attention, Cyprus simply cannot hope to attract wider engagement without some sort of indication that the two sides actually want to reach an accommodation. While it may be tempting for both communities to wait and see how events develop, in reality they are both playing a dangerous game that is based on zero-sum thinking. At this stage, a reasoned and reasonable policy of compromise needs to be formulated by both communities and concrete steps taken to show that this has happened and that international assistance is required to reach a settlement. For the Greek Cypriots this means listing and prioritising the changes they want to the Annan Plan. For the Turkish Cypriots, this means indicating that a policy of international recognition is not being pursued as an alternative to reunification.

Zenon Pophaides

Changes since the referenda and EU accession

Changes in the subjective beliefs of the people as a result of the referenda results and the accession of the ROC to the EU should be examined. It is interesting to inquire whether the two communities are now better prepared to jointly run a common state within the EU framework; and to what extent EU membership can effectively address the security concerns of the Greek and Turkish Cypriots.

The government of the ROC seems to believe that it now has more "degrees of freedom" in its relations with key member states such as Greece and Britain.

The position of the ROC in the region is politically enhanced. The economy of Cyprus has adjusted quite adequately to the new environment set by the EU.

The country has successfully introduced new institutions which have widened democracy and liberalized economic structures. The adoption of the euro in less than two years is expected to further increase the stability of the economy.

The Turkish Cypriot economy is also in a better shape. The opening of the “borders” has contributed positively to economic growth.

Turkey’s negotiation for accession to the EU has introduced a new factor into the dynamics of the Cyprus problem. It could function positively in the conflict resolution process, but it could equally operate in the opposite direction. There is a risk that the settlement could be linked to Turkey’s final outcome of its negotiation process with the EU.

Cyprus wishes to play a more active role in the Middle East relying on its new status as an EU state and drawing on its traditionally friendly relations with the Arab countries. If the right policies are pursued, Cyprus could benefit economically and politically and could also assist the EU in its dialogue with the Arab countries. The introduction of the euro may help the country in transforming itself into a regional financial centre. Additional areas of cooperation could also be envisaged, such as education, health etc.

These prospects are impeded by the perpetuation of the political stalemate on the island and the war in Iraq, and of course limited by the still uncertain EU foreign policy goals. Settlement of the Cyprus conflict and the creation of a bicomunal state with effective Turkish Cypriot participation can solidify the position of Cyprus in the region.

It is interesting to explore more deeply how neighbouring countries actually view the expansion of the EU into the Eastern Mediterranean.

Max Watson

Cyprus – Recent Economic Trends¹

During the past three years, activity strengthened in both north and south. This narrowed the intra-island income gap and boosted convergence towards EU income levels.

In the south, real GDP growth averaged two percent during the run-up to EU Membership, but then accelerated to nearly four percent in 2004-5 (Box 1). Growth is set to remain at this level over the next two years. Catch-up towards average EU income levels has thus resumed at a reasonable pace, in line with the medium-term growth of productive potential. In 2004, per capita GDP in the south stood at 84 percent of the EU average (the highest of the ten Member States that joined the EU that year). Policies in the south, over the medium term, have been geared to euro adoption and the Lisbon strategy. Fiscal consolidation and reform are a primary focus: meeting Maastricht, and addressing challenges of population

¹ This note was prepared by Max Watson, with input from Murat Erdal. The statements are personal assessments of the author and in particular do not seek to represent views of the European Commission.

ageing. A second focus is upgrading the value added in the economy through higher R & D, innovation and ICT, in combination with continuing structural reforms: this remains an important challenge in terms of sustaining and strengthening international competitiveness. Plans for achieving these goals are articulated in the authorities' Lisbon Reform Programme.

Box 1. Recent real GDP growth rates in the north and the south (in percent)

	2001	2002	2003	2004	2005
South	4.1	2.1	1.9	3.8	3.9
North	5.4	6.9	11.4	15.4	10.6

In the north, growth averaged 6 percent in 2001-2, in the wake of instability in Turkey and a banking crisis. It accelerated in 2003, and GDP has risen by 42 percent over the past three years. Growth was influenced by the aftermath of the reunification talks, including an inadvertent stimulus to property improvement; and more durably by the changed economic situation in Turkey (which embarked on more sustainable growth and was a more stable monetary anchor). Activity in the north is now slowing to a more sustainable pace, and a pattern less vulnerable to the property market. Trade constraints from the political situation still foster a somewhat distorted pattern of development, while unresolved property rights hamper sustainable foreign investment and financial sector expansion. Reforms in public accounting are underway. Urgent priorities are to cut the fiscal deficit; reform social security; and switch resources towards investment expenditure – thus relieving bottlenecks on growth.

Economic links between north and south are developing through limited channels. Labour market and tourist sector integration, through movement of persons across the Green Line, are the main elements. Trade volumes between north and south have been rising, but remain low. Trade with the south is equivalent to some 4 percent of total exports of goods and services from the north. Flows of goods were some CYP 275,000 in the last four months of 2004; CYP 981,000 in 2005; and CYP 142,000 in the first six weeks of 2006. Little trade passes from south to north. The main exports from the north have recently been agricultural products, followed by electrical goods and wood and stone products. There is little or no portfolio or direct investment across the Green Line. Overall, the partial opening of the divide since 2003 has added some euro 100 million (9 percent) to the GDP of the north, mainly from labour income of workers from the north employed in tourism and construction in the south.

Anecdotal evidence suggests that economic links between the north and Turkey are also deepening. These links include sizable financial flows, technical assistance in approximating to the *acquis communautaire*, and help in designing and implementing public finance reforms. Available data suggest that airline flights between Turkey and the north have been rising at a pace exceeding 20 percent per annum.

With the acceleration of growth in the north, the income gap across the island has been shrinking, although the recent pace and pattern of growth in the north is not sustainable. Moreover, work in the World Bank that is shortly to be published points to an income gap

between north and south that is much narrower than assumed at the time of the Annan Plan talks. Published estimates at that time were based on market exchange rates, and broadly suggested that incomes in the north were around *two-fifths* the level in the south (Box 2).

Box 2. The income gap in Cyprus – a historical perspective

During the UN discussions in Cyprus in 2004 the perception of a steep and persistent income gap between north and south may have been a factor that heightened tensions concerning convergence strategy and fiscal federalism. The conventional wisdom has been that living standards in the north lag very far behind standards in the south and are not catching up with them. Ayres (2003), while warning strongly of measurement hazards, cites EIU per capita income data for 2000 that contrast a level of US\$ 6000 in the north with US\$ 13000 in the south. The convergence projections of Mehmet (2004) start from a disparity of 60 percent between income levels. The 2004 report on the Annan plan by Eichengreen et al. bases its convergence projections on a 60 percent wage gap. The authors of such studies have thus foreseen very long catch-up periods. For example, Eichengreen et al. warn that, even on a benign scenario, incomes in the north could still be only 62 percent of levels in the south by 2020. These assessments need to be reassessed in light of new information.

Technical work in the World Bank has sought to adjust data roughly to a purchasing power parity basis, and to correct for statistical problems (Box 3). *This provisional work should not yet be publicly quoted.* It suggests that living standards in the north are roughly *three-quarters* those in the south, shedding new light on the context of a reunification settlement.

Box 3. Per capita income in north and south in 2004 (in current US dollars 000s)

	Nominal	World Bank Atlas	PPP-corrected
North	8.1	7.2	14.8
North - revised base	9.2	8.2	16.9
South	19.4	17.6	22.3
<i>Ratio(north: south)</i>	<i>42</i>	<i>41</i>	<i>66</i>
<i>Ratio - revised base</i>	<i>48</i>	<i>47</i>	<i>76</i>

NOTE: The World Bank Atlas method for correcting GNI takes account of nominal exchange rate fluctuations; PPP estimates correct for differences in purchasing power. The revised base data take account of the input-output matrix developed to assess the adequacy of GDP data in the north by extending coverage of the formal private sector (but not the informal sector, which would add a further 20-35 percent to estimates of economic activity). Source: IBRD Unpublished Mimeo (2006)

References: Ayres (2003): “The economic costs of separation: the north-south development gap in Cyprus”. Eichengreen, Faini, von Hagen and Wyplosz (2004): “Economic aspects of the Annan plan for the solution of the Cyprus problem: a report”. Mehmet (2004): “Required investment for convergence of growth rates and incomes per capita in a possible federal Cyprus”. World Bank (2006): Unpublished mimeo. Herzberg and Watson (2004): “Towards economic convergence and reunification: the case of the northern part of Cyprus – macroeconomic and financial frameworks”. Noe and Watson (2005): European Commission ECFIN Country Focus, Volume 2, Issue 3: “Convergence and Reunification in Cyprus: Scope for a Virtuous Circle”.

Some figures relating to public perceptions of political developments in Cyprus

The referendum on the Annan Plan has, if anything, brought to the fore the public's involvement in endorsing an eventual agreement. While on the Turkish Cypriot side this involvement became apparent since the initial tabling of the plan, in the south it could be argued that it was the process of discussing the various aspects of the plan after it was finalised that spurred this involvement (the high ratings of approval of the President's "way of exercising his duties", which peaked to 70% around the time of the referendum according to CYMAR Market's Omnibus study, can be considered indicative of this –see figure 1). Commentators have since claimed that because the different aspects of this proposed solution have been discussed in particular ways, it is unlikely that a final agreement in the future could be finalized without a similar process of public endorsement. Based on this argument, many analysts have, in the last three years, attempted to infer shifts in local perceptions of a future solution.

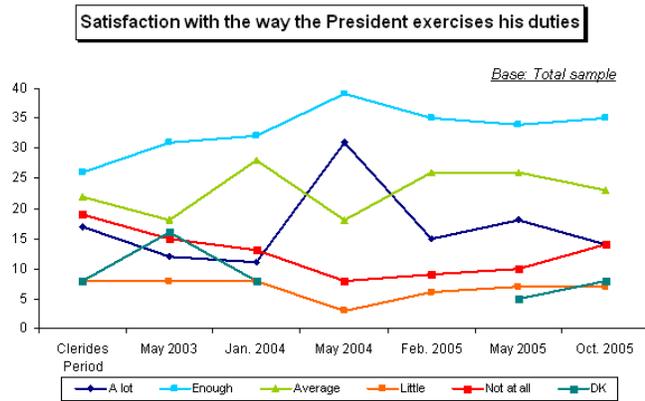


Figure 1

In a report prepared by Alexandros Lordos in February 2005 the acceptability of different alternatives to various aspects of the solution was presented (figure 2). The report concludes that a "European solution" to the problem receives the highest acceptability ratings amongst both communities (67% for each) and thus seems to have the best chance of survival as a long-term solution. What is understood by this European solution includes, on the Greek Cypriot side "the issue of Security that does not involve foreign interference, a solution to the problem of refugees that obeys the principles of International Law, an economy that is strongly integrated and wherein the free market principle is respected and enshrined, and, finally an absolute respect for "the basic freedoms" so that everyone will be free to settle at the place of his choosing, and have the right to vote and be elected at that same place" (Lordos, 2005: 91-92). On the Turkish Cypriot side, such a solution would involve "rais[ing] their standard of living through a more effective integration with the European Union..., improv[ing] the functionality of the economy, or...the employment prospects of the Turkish Cypriots, more development and reconstruction subsidies into Turkish Cypriot hands... Federal oversight of the economy, [and the fact] that the three non-Cypriot judges should be from European countries" (ibid: 94, for full report see <http://www.cypruspolls.org/CivilSocietyDiplomacy.pdf>).

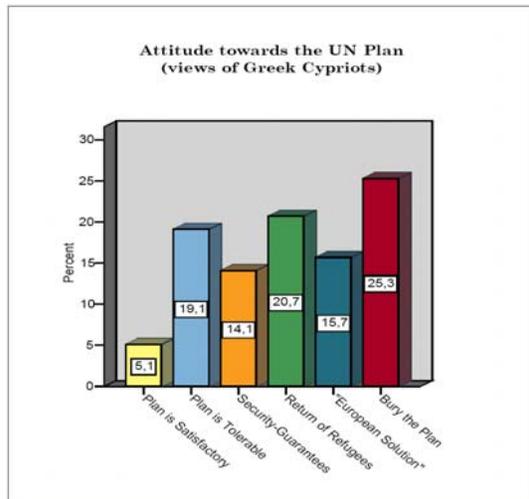


Figure 10.1 - Greek Cypriot attitudes towards the prospect of improving the UN Peace Plan.

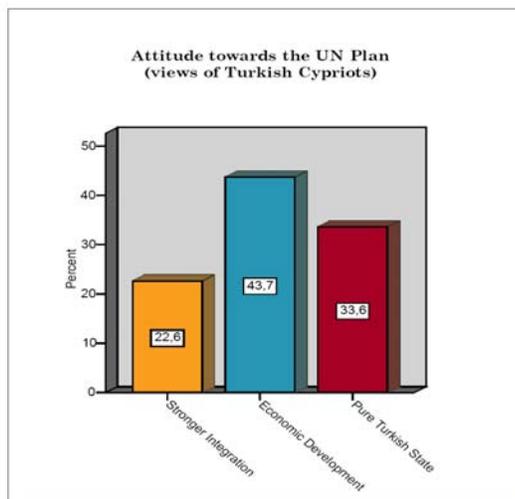


Figure 10.2 - Turkish Cypriot attitudes towards the prospect of improving the UN Peace Plan.

Figure 2: Excerpt from “Options for Peace” report

Polls on Cypriots’ political preferences have, in the last three years proliferated. Evidence regarding the social relations between the two sides is rarer, although beginning to be produced. Crossings across the Green Line are perhaps one of the most easily quantifiable indications of this, although subject to multiple interpretations. In January 2006, the US Department of State reported an estimated 7 million crossings in both directions since April 2003 (<http://www.state.gov/r/pa/ei/bgn/5376.htm>) – averaging of 7300 per day. Around six thousand Turkish Cypriots are estimated to work in the south (accounting for many of the crossings), about half of them covered by social insurance. The Republic’s Ministry of Finance undertook two studies in 2003 regarding crossings. The second one, covering the period 9-12 May suggested that the spending per capita “on the other side” for each community was roughly the same (c. £7.25). It also showed that more Turkish Cypriots crossed repeatedly (38% of them more than four times, while 43% of Greek Cypriots had only crossed once) and that many more Greek Cypriots were determined not to cross again (32% compared to 1% for Turkish Cypriots). Although this study is dated, nothing similar appears to have been published since. Yet, it appears indicative of some of the general trends relating to the politicization of the crossings. The reasons for crossing might in fact carry the strongest suggestive evidence about the kind of socialization taking place across the Line – as yet though, this area remains under-researched and largely in the domain of public knowledge or conjecture (for example that many Turkish Cypriots cross to shop in the south or that the most avid Greek Cypriot crossers are casino visitors).

Another kind of socialization across the line relates to Turkish Cypriots’ relation to the government of the Republic. It is indicative that since the opening of the Green Line many thousands of Turkish Cypriots have applied for identification documents from the authorities of the Republic (Apostolides gave, in September 2004 numbers for passports, identity cards and birth certificates as 21101, 45609 and 55734 respectively)². Because such relations also involve issues of rights (recent examples being property and voting rights), it might be argued that this form of socialization carries the most potential for altering the status quo on the ground in the absence of an agreed settlement.

² See <http://www.wolfson.ox.ac.uk/ncyprus/WCW-CA-PPT.pps#260,5,Effect of Partial Freedom of Movement>

Annexes B: Documents

UN press release on the Annan-Papadopoulos meeting:

(available at <http://www.un.org/News/Press/docs/2006/sgsm10361.doc.htm>)

SECRETARY-GENERAL MEETS WITH PRESIDENT OF CYPRUS

The following statement was issued following the meeting in Paris today between UN Secretary-General Kofi Annan and the President of Cyprus, Tassos Papadopoulos:

United Nations Secretary-General, Mr. Kofi Annan and President Tassos Papadopoulos met in Paris today to review the situation in Cyprus and examine modalities for moving forward on the process leading to the reunification of the island.

They agreed, as they have in the past, that the resumption of the negotiating process within the framework of the Secretary-General's good offices must be timely and based on careful preparation. To that end the Secretary-General was pleased to note that the leaders of both communities have agreed that bi-communal discussions on a series of issues, agreement on which are needed for the benefit of all Cypriots, will be undertaken at the technical level. The Secretary-General and President Papadopoulos expressed their common hope that these discussions would help restore trust between the two communities, as well as prepare the way for the earliest full resumption of the negotiating process. The Secretary-General noted that he had received assurances from the leader of the Turkish Cypriot community, Mr. Talat, that he shared the same aspirations.

The Secretary-General and Mr. Papadopoulos also agreed that it would be beneficial for all concerned, and would greatly improve the atmosphere for further talks, if progress could be achieved on further disengagement of forces and demilitarization on the island, on the complete de-mining of Cyprus, and on the issue of Famagusta. They took note of the recent decision by the European Union to release the much awaited funds for the benefit of the Turkish Cypriot community. In this context, they expressed their warm wishes for the full and speedy recovery of Mr. Talat.

The Secretary-General and President Papadopoulos agreed to continue their ongoing dialogue with the expressed aim at accelerating the search for a comprehensive, fair and mutually acceptable solution to the Cyprus problem.

* ***

Statement by Commissioner for Enlargement Olli Rehn, on the adoption of the Aid Regulation for the Turkish Cypriot community by the Council:

(available at

<http://europa.eu.int/rapid/pressReleasesAction.do?reference=MEX/06/0227&format=HTML&aged=0&language=EN&guiLanguage=en>)

The Commission welcomes today's decision of the General Affairs and External Relations Council (GAERC) to adopt the Regulation establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community. Adopting this Regulation enables the EU to bring assistance where it is urgently needed in fields such as energy and environment. Many concrete projects can now be realised which bring the Turkish Cypriot community closer to the European Union. The Aid Regulation will also allow the Commission to prepare the Turkish Cypriot community for the future application of EU Law following a comprehensive settlement of the Cyprus problem. The adoption of the aid package should be seen as a first step by the EU towards putting an end to the isolation of the Turkish Cypriot community and facilitating the reunification of Cyprus as laid down in the conclusions of the General Affairs and External Relations Council on 26 April 2004. The Commission encourages the Council to move towards adoption of the proposal made in 2004 on trade between the EU and the Turkish Cypriot community. In line with its long-standing position, the Commission remains fully committed to supporting a resumption of UN-led talks for a comprehensive settlement of the Cyprus issue as soon as possible.

EU Council statement on adoption of the aid regulation (27 February 2006):

(available at http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/misc/88527.pdf)

EU financial support for the Turkish Cypriot community

The Council adopted today* a regulation establishing an instrument of financial support for encouraging the economic development of the Turkish Cypriot community in the northern part of Cyprus. This represents a significant step towards meeting the Council conclusions on Cyprus adopted on 26 April 2004. A total of 139 million euros will now be made available to the Turkish Cypriot community in 2006, with a view to promoting the economic integration of the island and improving contact between the two communities and with the EU.

Today's agreement on the instrument of financial support follows intense efforts by the Austrian Presidency to find a way forward on all issues relevant to the follow-up of the April 2004 Council conclusions. Measures to be financed by the financial instrument are of an exceptional and transitional nature. They are intended, in particular, to prepare and facilitate, as appropriate, the full application of the *acquis communautaire* in the areas in which the

government of the Republic of Cyprus does not exercise effective control, once a comprehensive solution to the Cyprus problem has been achieved.

As a first step in response to the April 2004 Council conclusions on Cyprus, the Council on 29 April 2004 already adopted the so-called "Green Line Regulation", which facilitates trade and other links between the areas in which the government of the Republic of Cyprus exercises effective control and the areas in which it does not.

* The regulation was adopted at the General Affairs Council meeting.

Other relevant documents on Turkish Cypriot taskforce's website:
(http://europa.eu.int/comm/enlargement/turkish_cypriot_en.htm)

Aid Regulation:

[http://europa.eu.int/comm/enlargement/docs/pdf/040707financial_instrumentFINAL_wi
thout_FIFL.pdf](http://europa.eu.int/comm/enlargement/docs/pdf/040707financial_instrumentFINAL_wi
thout_FIFL.pdf)

Direct Trade Regulation:

[http://europa.eu.int/comm/enlargement/docs/pdf/040707_direct_trade_regulation_FINA
L.pdf](http://europa.eu.int/comm/enlargement/docs/pdf/040707_direct_trade_regulation_FINA
L.pdf)