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**CYPRUS: THE WAY
FORWARD**

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The Way Forward for Cyprus

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Cyprus' economic potential (just as its political prospects) are now at a crossroads. The country stands between economic prosperity and continued economic morass depending on how its offshore energy reserves are managed and on how effectively it manages to build alliances with its neighbours. A marauding Turkey is threatening Cyprus and has already invaded its Exclusive Economic Zone (EOZ) with the United States exhibiting a deafening silence in the face of Turkish aggression and with Britain, ostensibly a guarantor of Cyprus' territorial integrity, behaving in exactly the same way. Cyprus is thus left with no other option but to turn to its neighbours: Greece, Israel, Egypt, Lebanon and Jordan and also to Russia and the EU for support and condemnation of Turkey's blatant violation of international law. Top level meetings between Cyprus and each of these countries have started. Cyprus urgently needs friends with common interests if it is to explore and utilise its offshore wealth and address its major economic problems.

Cyprus is going through its worst economic crisis since the country was invaded some 40 years back by the Turkish army which to this day is still holding Cyprus hostage by force of arms. The economy of Cyprus is in near tatters with about one in five employees out of a job or carrying out some menial low-paid tasks to keep busy. Thousands of young professionals with great promise have emigrated in search of a brighter future. Investment has all but dried up as the government is in heavy debt and cannot spend on development projects; the banking system is broken and discredited and charges prohibitive loan interest rates making internal investment impossible. Serious foreign investment is all but absent. Therefore, restarting the Cyprus economy will not be an easy matter and does not seem to be on the horizon. Trust is at an all-time low and this is hurting every attempt at improving the situation. The people of Cyprus are going through great hardship and there does not seem to be any light at the end of tunnel other than the utilisation of

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its energy reserves. Energy is hoped to: a) reduce Cyprus' crippling energy costs (the highest electricity bills in the EU) and b) export surplus energy and gradually building up a serious sovereign fund for future generations as well.

The energy reserves are a matter of life and death for Cyprus as these also touch the issues of independence and sovereignty. Energy is not just an isolated event that is divorced from the whole. In the case of Cyprus energy is intertwined with: a) the Turkish occupation and Turkish ambitions for full control of the island, b) the "solution" of the Cyprus problem in a way that will render the post-"solution" Cyprus government a non-entity and impotent to build a relationship with Russia, Cyprus' longtime friend; the Americans and the British wish to see Russia cooped up in the Black Sea and as far away from Cyprus as possible, c) multinational company interests and their desire to get as much as possible out of Cyprus' energy reserves, d) Europe's energy dependence on Russia and the desire of some to reduce this dependency, e) Turkish supercilious strategy of becoming the regional policeman accountable to no one, f) sea power and control of the Eastern Mediterranean seas by a menacing Turkish navy considering the importance of the seas as energy depositories, g) economics and Cyprus' ability to free itself from the headlock of the financial crisis and h) energy as a catapult for new alliances outside the former colonial power of the region and its successor.

Theodoros Kyprianou and Aris Petasis jointly address the issue of holism in decision-making and bring examples and experiences from management, the economy and medicine to demonstrate that ad hoc and isolated action outside the framework of a system inevitably fails even if serendipity and good fortune play their role in favour of the ad hoc decision. A complete whole is made up of parts that work together efficiently and in harmony helping the system improve its output and effectiveness. Efficient systems ensure that parts work synergistically and for the greater good of each part and the whole. But, systems require renewal and as such need to operate openly to enable themselves to benefit from the exchange of information with the environment. Dynamic homeostasis is central to the workings of a system as it enables this to adjust to change and rejuvenate itself without losing its balance.

Policy makers thus need to take heed of the importance of measuring every action in terms of its influence and impact on the other parts of the system. A good medical practitioner knows that in prescribing a medicine to fight one

ailment he/she runs the risk of creating a new problem through the process of contra indications and considering that all parts of the human body are interdependent. By the same token governments ought to know that, for example, any bail-in of depositors (allowing the bank to “legally” take depositors money and to convert this into useless equity) is certainly going to have detrimental effects on other parts of the economy due to *loss of trust*. So, no one action should be assessed independently of the system because every action impacts widely and just as intended.

The authors content that holistic approaches take into account the broader picture that encompasses the tangible as well as the intangible: material things, people, emotions and economic, social, financial as well as spiritual fundamentals, etc. The authors conclude that for purposes of enhanced effectiveness no single issue should be seen in isolation and outside the context of interrelated parts. All the articles in this edition offer proof of the interdependency of actions and the need to take a wider perspective when analysing even the simplest of decisions, events or actions. Within the context of holism all actions need to be appraised against the criterion of contribution; whether they add to or subtract from the whole. Equally, and considering the fluidity of the environment in which people operate, one needs to remember that yesterday’s approaches do not necessarily answer today’s problems; each new problem should be assessed holistically and within the right time frame.

In his hard-hitting, and pertinent to today’s events, article William Mallinson reminds the reader of the hard realities that need to be considered by Greece and Cyprus when taking strategic decisions about their future. William highlights the fact that both countries are peripheral players in the Eastern Mediterranean. The political elite of these two countries is well aware of this fact. The lucidity in the title of this paper, “*Greece and Cyprus as Geopolitical Fodder*” prepares the reader of what to expect. William puts the position that Greece and Cyprus have never been allowed to really act independently because for decades they have been under the political and hegemonic control of the British and then the USA as successor empire in the Middle East and the Eastern Mediterranean. Greece and Cyprus continue to be in the same position that they have always been post-World War II; hence the term, “... Geopolitical Fodder” in the cogent title of the article. Playing the role of a geopolitical football is dangerous for both countries as this leads them to cow

under the pressures that the two hegemonic powers and their close ally, Turkey, exert for their own interests.

The obsessive concern with Russia's presence in the Eastern Mediterranean by the USA and its smaller and weaker ally Britain is one of the reasons why both these countries take decisions on issues affecting Greece and Cyprus that are designed never to allow these two countries to stay close to Russia that shares the same religion with both these countries and most importantly shares common struggles particularly against Ottoman/Turkish aggression that come under the heading, "The Eastern Question." Britain supports the internal discussions on finding a solution for Cyprus because this suits her fine. As long as these talks continue ad infinitum the British bases in Cyprus remain secure. A tenable solution may bring the two Cypriot sides together in their opposition to the presence of British bases in Cyprus. A flare up between Cyprus and Turkey is not in the interests of Britain either. Cyprus is happy to have NATO ally Turkey half-occupying and controlling the destiny of Cyprus whilst Britain maintains its military bases in Cyprus untroubled.

The US wishes to see a solution for the Cyprus problem that nullifies the Greek side as a decision-maker and this way rendering the Greeks impotent to decide in favour of an alliance, of some form, with Russia. Under this scenario Russia will be kept out of Cyprus and the Eastern Mediterranean basically to perpetuity. As weak and unassertive countries Greece and Cyprus are for the moment destined not to play any role of significance in the events that unfold and which affect them directly. Under current policy both these countries will continue to be marginalized as footfalls of those that control their destiny (The USA, Britain and Nato-ally Turkey). Malisson notes that the Americans are more concerned about Turkish-Israeli strategic co-operation in the Middle East, particularly with events in Syria, thus giving this matter greater priority than a "re-unified" but impotent Cyprus. Attitudes don't seem to have changed much in the Eastern Mediterranean since the day Nato's first Secretary General, Lord Ismay defined honestly the role of Nato as, "to keep the Americans in [Europe] to keep the Germans down [in Europe] and *to keep the Russians out [of Europe.]*" (my italics).

In his in-depth article on Cyprus' recent energy finds Solon Kasinis asserts that Cyprus now finds itself in a unique strategic position that offers great promise and great economic prospects but adds the caveat that all will depend

on the correctness of decisions that will be taken in the immediate future as all is not straightforward. Historical enmities and tensions between countries in the Eastern Mediterranean and the geopolitical setting of the region add to the difficulties of cooperation between the players in the region. Cyprus will need economic and other alliances if it is to benefit from its energy reserves. The positive outcomes from the activities of countries neighboring Cyprus that discovered and produce oil and natural gas is encouraging as these countries are potential partners and allies of Cyprus in its pursuit to join the ranks of the energy producing nations.

Optimistically, natural gas is gaining in importance throughout the world and is gradually becoming the 'preferred' conventional fossil fuel. This is expected to continue into the next decades as natural gas is an efficient and clean combustion. So, demand for this kind of fuel is expected to rise. Even now natural gas stands second to oil as a utilized fossil fuel. So, the potential for natural gas is there and with time this potential will be realised. The East Mediterranean region stands to benefit from such outcomes as the region is expected to become the fourth largest region in hydrocarbons production globally (after Russia, Qatar and the North Sea).

Aiming to strengthen the security of energy supplies, to enhance energy self-sufficiency and to shield the country's geo-strategic role, Cyprus has been involved for the last decade in systematic planning in the hydrocarbon exploration sector. In his paper Solon discusses geopolitics and the way forward for gas monetization. The success story starts from the moment Cyprus managed to attract oil and gas companies for exploration and in this way getting the ball rolling. Now, issues such as the kind of infrastructure and the commercial structures that need to be put in place in pursuit of the monetization of Cyprus' natural gas ought to be resolved. Also, the risks involved need to be calculated correctly.

Cyprus would also need to address the issue of skills and human resources that will be needed for this purpose; work to this effect is already taking place. Solon also addresses the issue of bilateral or trilateral cooperation in the field of natural gas exploration between Cyprus, Greece and Israel; whilst stressing the importance of building relationships with other countries in the region to enhance stability and restore relationships for the good of the countries in the region. As regards the eventual gas export from Cyprus the author

unequivocally takes the position that “...the *Pipeline through Turkey* route must be *absolutely excluded*, since...[this] will allow... control of Cypriot gas flows by Turkey.” The possibility for a pipeline *to Turkey* would need to be discussed as a geopolitical issue after the resolution of the Cyprus Problem and the freeing of 40% of Cypriot territory from Turkish occupation.

George Georgiou’s paper delves in the issues of energy and Exclusive Economic Zones (EEZs) and masterfully brings to the reader’s attention the complexity of the problem. He notes that far too many players are currently involved in this most compound problem. A complex network of countries and institutions would need somehow to work in tandem if benefits for all participants in the region are to be realised. This complex network includes among others: politicians, energy companies, countries with differing interest, historic precedent, trust and mistrust, export routes, military and other alliances, etc.

As regards Cyprus, which is central in Georgiou’s essay, the pertinent issues go beyond quantities, monetization and export routes considering that Cyprus is a weak and unprotected country, with no credible defence structures and with the interests of some major players aligned with those of Turkey. Cyprus, therefore, needs urgently to team up with others and to build alliances. Probably the most important question that Cyprus would need to answer at this juncture is whether or not to team up with Israel (considering common interests) for the exploration and exploitation of its energy reserves. Cyprus is in dire economic straits with a bloated sovereign debt that now exceeds 100% of GDP, with a broken banking system whose problems do not seem to go away, with low trust in the economy both internally and externally and most importantly with a weak and feeble political position. Turkish aggression is ever present and intends to continue intimidating Cyprus by flexing its military muscle unchallenged.

Cyprus needs Israel to provide a security umbrella in the event of both countries agreeing on joint exploration and joint energy projects. Without Israel’s defence umbrella it is unlikely that Cyprus will ever be able to explore its ostensibly vast wealth. Without protection international O & G companies are unlikely to brave the threats of Turkey. Thus, all the hitherto intrepid moves by Cyprus stand to be derailed with the alliance of Israel. George is of the opinion that without Israel’s energy reserves, financial participation and

protection the future of Cyprus' energy reserves look to have little promise. But, Israel is facing its own existential problems and relies to a large extent on USA's support and goodwill. Importantly the USA is a strong ally of Turkey that for the moment is at loggerheads with Israel. One can therefore expect the Israel-Turkey rapprochement to resume under pressure and cajoling by the USA that has much to gain by re-establishing the friendship between these two countries. This likelihood makes Cyprus apprehensive considering that Turkey uses threats against Cyprus and occupies 40% of Cyprus' land for 40 years now. George's work clearly makes interesting reading for anyone interested in the geopolitics of the area and particularly in the future of Israel-Cyprus relationship and potential cooperation.

Hilal Khashan traces the history of the countries in the area (Middle East /Eastern Mediterranean) and dwells on the open wounds amongst and between countries in the region. Hilal discusses the prospects of cooperation on energy issues between countries in the region considering that energy can potentially be very lucrative for all countries in the region; all these countries stand to gain from cooperation. In his erudite article the author puts forward the core factors that inhibit these countries from working together either bilaterally or multilaterally. The string of factors inhibiting full cooperation include: troublesome history, bad blood between neighbours, psychology and mistrust, national interests as perceived by each of the countries in the chain. All these factors play an incapacitating role in the effort to gain maximum advantage for all countries in the region. History in particular impacts heavily on the ability of countries to work together. Add to this the fact that the countries of the Eastern Mediterranean are ancient and with long, long histories and long struggles.

Khashan skillfully brings out another serious issue in the energy exploration debate; that of uneven gas exploration and exploitation in the EEZs of countries in the Eastern Mediterranean neighborhood. This fact weighs heavily on the issue of cooperation and seriously handicaps attempts to delineate and resolve outstanding and lingering issues and feuds concerning the EEZs of neighbors. Thus, two concerns raise their ugly heads and hoist barriers in the road to cooperation between countries in the region: a) history (often turbulent) and b) unevenness of gas exploration and exploitation that inhibits the resolution of disputes and feuds over the delineation of EEZ issues and feuds.

These two major factors create a toxic cocktail that poisons the road to full cooperation and seamless exploration and exploitation of the valuable resources that the seabed of the Eastern Mediterranean is gifting the countries of the region. These most important issues that Khashan so poignantly raises in his paper dovetail with the excellent papers on the same theme by George Georgiou and Solon Kasinis on the theme of energy resources in the area. Taken together the three papers raise to new heights the understanding of reader as regards the issue of oil and gas reserves in the Eastern Mediterranean and highlight the many obstacles that need to be navigated before economic exploitation of these natural resources can be achieved.

The issue of trust between countries and relationships between countries weighs heavily on the questions under debate. Regrettably the loss of trust is not a chancy event that comes out of nowhere. Loss of trust is often cumulative and adds up through repeated actions and resolutions that are inimical to the other side. So, rebuilding trust is not an easy matter and usually takes years of effort and goodwill. So, the question of the readiness of all sides to cooperate that Hilal raises in his paper looms large because as he contents countries are not ready at this juncture of history to forget the past and to start a new page. Lingering doubts about the other side's intentions are assessed in a historical context. For now true collective action in the region does not seem to be a reality but things could change in the near future given the vast economic benefits that can be gleaned from collective action and close cooperation. For trust to return the region needs to go through an unbroken period of peace and tranquility in the affairs between these countries. The current cooperation between Egypt, Greece, Cyprus and Israel is a promising start; hopefully this will encourage other countries to join in the common goal.

Aris Petasis examines the history of the Cyprus economy and concludes that the absence of timely corrective action over the years has brought the economy on the brink of catastrophe: a debilitating sovereign debt that keeps rising, no serious investment to restart the economy and most importantly a broken banking system that is shrinking continuously and does not seem to be able to deal with the mounting non performing loans. The author castigates the failure of decision makers to assess the impact of individual decisions on the *economic system* of Cyprus and to take timely corrective action. The high cost of running the public sector was not appreciated (or rather, it was appreciated but little

was done for fear of public sector employee-voter backlash). This cost was allowed to grow to a crushing 21% of GDP the moment Germany's was only 7%. Equally, Cyprus' inability to export was left unattended as imports came streaming in and financed largely by borrowing. This led to a negative current account deficit of some 8% of GDP. Even though on the surface the current account situation has improved, no breakthroughs were made. Simply, imports are reducing on account of diminishing consumer power. No significant change in the country's capacity to export. The banking system was allowed to operate freely and with only rudimentary controls. In the end it fell victim to amateur and unwise decisions by managers and decision-makers that had only parochial background and understanding of things. These officers failed utterly to see the big picture in time. The Central Bank of Cyprus failed miserably in its task to identify and analyze situations and to take action to stem the ever increasing balance sheet of major banks. This failure allowed the building up of a hypertrophic banking system that was programmed to collapse under its own weight and to bring down the economy in its wake. The unprecedented bail-in of depositors all but ruined any trust in the banking system of Cyprus and by extension in its economy.

Rather than trying to restore lost trust, that would hopefully make new investments possible, policy-makers resorted to propaganda and ad hoc actions such as the granting of investor visas to third world citizens; failing to see that this is no solution to a deep-rooted problem. Others are still attempting to bring back the destructive practices of the past such as selling land and creating schemes that are self-destructive by their very nature. One still hears the term "investor" applied to a land speculator; forgetting that when a piece of land changes hands the buyer "invests" and the seller simultaneously "disinvests." The buyer converts cash into land and the seller converts land into cash.

Aris puts forward the position that Cyprus needs urgently to get over the huge *trust deficit* that has engulfed the country on account of the bad decisions of the past. Unless trust returns the economy of Cyprus is bound to remain in morass for a long, long time. Trust can only be restored if Cyprus does things the right way and honestly. Propaganda will not restore trust just as flashes in the pan will not help. Empty words about foreign investors queuing up to invest their money in Cyprus will not restore trust either. Cyprus needs to go back to the drawing board and to design a balanced economy based on its relative

advantages such as these exist in shipping and tourism, for example, but also in the export of goods in which Cyprus has a relative advantage due to its history. Quality products and services are of great essence for Cyprus. Attempts to “convert Cyprus into an international financial centre” are doomed to fail and will bring back the specter of the past. For now at least Cyprus does not have the wherewithal to become a financial center and most importantly it does not have the credibility to be a financial centre. The same with land speculation and the buying and selling of land that mathematically will lead to another property bubble in the coming decades. Cyprus needs urgently to up the quality of its goods and services and to bring more morality to its business processes as trust depends heavily on such behaviour. The quality of management at public and private sector levels has to improve markedly so that correct future decisions can be taken. Ad hoc and impromptu decisions have to give way to systematic decision-making that takes a holistic view of issues and problems. Short-termism needs to give way to sound thought that covers the full horizon. Cyprus needs to: acknowledge all the bad decisions and self-centered behaviours of the past, to show sincere remorse, to restructure its economy, to create a working civil service that will work for the good of the tax payer and not for the good of anyone else. Cyprus needs a revised mind-set that will focus on quality and value for money. On these premises the economy of Cyprus stands a good chance of reviving, turning the current bad situation around and building an economy with potential.

In his high quality essay Miguel Moratinos managed to combine very beneficially his in-depth theoretical knowledge of international affairs with his broad and multifaceted experiences from his long and distinguished career both as Spanish Minister of Foreign Affairs and as EU Special Representative for the Middle East peace process. He managed to give the reader a fresh insight into the geopolitics of the Eastern Mediterranean and to put forward some commendable and most valuable recommendations as to management of the many new challenges that the East Mediterranean region is now facing.

The author traces seriously and with great diligence the often conflict ridden past of the Eastern Mediterranean region highlighting the importance of the region throughout history. The essay makes reference to the impact on the region of: a) the fall of the Ottoman Empire, b) the ending of World War II, c) the creation of NATO and the assignment by the US and NATO to Turkey the

role of regional policeman at the expense of other countries and most importantly NATO-ally Greece and Cyprus, now half-occupied by Turkish troops, d) the impact on the area of the Cold War and its aftermath after the fall of the Berlin Wall and e) the new antagonism between the US and Russia that brings into the fray other countries as well e.g. the EU stands to lose much from applying US sanctions on Russia as a result of the Ukrainian crisis.

As regards Cyprus the author notes that since ancient times the major powers of the time coveted the island because of its geostrategic position in the Eastern Mediterranean. Foreigners meddling with the affairs of Cyprus is as old as time often leading to confrontation amongst actors that wished to exercise their hegemony in the region; with Cyprus on the receiving end. The new geopolitics of our time threaten to engulf the East Mediterranean into new adventures preventing the countries in the region from exploiting the resources of their countries and cooperating amicably for common advantage. The new and entirely unnecessary East-West confrontation is causing problems to countries most of which do not wish to be enmeshed into other countries' brawls. This is costing much to Europe, Russia and the region. The challenges in the region such as the new Arab-Muslim, Arab-Israeli conflicts are impacting heavily on the region. Economic issues are adding to fear as well. Most importantly for Cyprus the new energy finds in the area are creating new tensions with Turkey threatening and acting in a menacing manner. Moratinos makes it clear that disputes on energy should be solved in line with the law of the seas and nothing else. International law must prevail.

The author makes reference to the Cyprus problem and the half-occupation of the country as well as to the Israeli-Palestinian problem both of which are weighing heavily on the peace of the region. He very astutely makes the point that these problems were left to be solved by the great powers and particularly the USA. Nothing has come out of this approach proving the limitations of superpower coercion and diplomacy. Thus a new strategy is required. He calls on the EU to weigh in and bring to bear its own capabilities and great potential to provide fair solutions to long-standing problems. But, the EU would first need to understand the dimensions of the problems that are plaguing the Eastern Mediterranean whilst giving priority to solving these two problems. The Cyprus problem should cease to be stage managed and manipulated by the former colonial powers or their successors. Miguel fails to understand why

Britain should occupy 5% of Cyprus, a legacy of the pre-sixties or why solutions have to follow NATO edicts. EU ought to establish and implement its own defence and security arrangements guaranteeing the security of the area for peace and stability through out the region. The recognition of two states: Israel and Palestine will be decisive in shaping and establishing the process of regional cooperation and integration on the EU model.

The creation of a High Energy Authority is central to Miguel's thinking as regards to the management of the energy resources in the region. This happened successfully in 1951 for coal and steel and brought together Germany and France. The future of the Russian-US relationship will inevitably affect the region. The author judiciously suggests that the countries in the region must act in full independence of major powers by reviewing their own geostrategic potential on merit and divorced from the great powers. These will free the countries of the region from being subordinate subcontracts or proxies of big powers.

Stephanos Constantinides traces methodically the many developments that are now taking shape in the Eastern Mediterranean as a result of the radical changes that have taken place in the region in the last years. He highlights the recent tumultuous events in the area and more particularly the failed "Arab Spring" that was instrumental in unraveling Turkey's highfalutin plans of becoming the neo-Ottoman leaders of the region. Developments on the Iranian front, the Palestine-Israel impasse, Kurdish autonomy, the ongoing bloodshed in Iraq and Syria, the shifting alliances in the area and big-power politics are given their rightful place in Constantinides' analysis.

He skillfully relates all these events to Cyprus and the dangers the country is facing but also the opportunities that these developments can create for Cyprus in its attempt to exploit its energy resources and to free itself from the shackles of the Turkish occupation. The detrimental effects these events are having on Turkey are finely summarized and in the process give some hope to Cyprus as regards its potential to repel Turkish aggression, that saw the Turkey's navy invade Cyprus' Exclusive Economic Zone (EEZ), and put an end to Turkish plans to scuttle Cyprus' efforts to exploit its natural resources.

Turkey's drive for hegemony in the area and leadership of the Sunny Moslem populations has taken a heavy beating as a result of its ill-conceived strategies that brought it into confrontation with two of the power houses in

the region: Egypt and Saudi Arabia. Succinctly Stephanos makes the point that Egypt (“hum duniya” or “mother of the world” to the Egyptians) put an end to Turkish dreams for hegemony. Turkey’s fallout with Israel has added to Turkish woes in the region whilst offering Cyprus and Greece a chance to start working towards an alliance with Israel for the benefit of the three countries and which can provide the Israeli air force much needed air space over Cypriot and Greek skies. Turkey’s much flaunted policy of zero problems with its neighbours has turned into a bad joke considering that Turkey is now at odds with nearly all its neighbors. The gradual thawing of relations between the West and Iran is not something that will work in Turkey’s favour. Turkey is now facing three serious problems: a) the Kurds and their drive for autonomy and independence that now has more promise than before, b) Syria and Turkey’s shambolic attempt to overthrow its erstwhile ally, the current government of Syria, by siding with insurgency groups of disparate objectives and c) the fragile, and maybe unraveling, Turkish economy that is suffering from the “twin deficits” of budget shortfalls and running negative current accounts.

Considering the current geostrategic shifts in the area, Cyprus and Greece are called upon to redefine their alliances, with the latter now realizing the need to pay more importance to the Middle East that it neglected for so many years. Though the West no longer plays the pivotal role of yesteryear America is still in the center of events and continues to be an ardent supporter of Turkey. Greece and Cyprus now need urgently to look towards Russia as their traditional friend, Egypt and Israel whilst remembering that the Turkish-Israeli strained relationships will unavoidably mend one day. The energy issue will play a pivotal role in the shaping of alliances and relationships in the Eastern Mediterranean.