

ETUDES HELLENIQUES

HELLENIC STUDIES

**LA CRISE CHYPRIOTE
THE CYPRUS CRISIS**

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Cyprus: Facing a Double Deadlock

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RÉSUMÉ

En 1974, Chypre a réussi à survivre malgré le fait qu'elle ait perdu 70% de ses sources de richesse à la suite de l'invasion turque. Va-t-elle réussir à survivre cette fois-ci? La découverte des réserves de gaz naturel semble être le seul moyen qui puisse permettre à Chypre de sortir de la situation économique épouvantable dans laquelle le pays se trouve actuellement.

ABSTRACT

In 1974 Cyprus managed to survive despite the fact that 70% of its wealth producing sources had been lost as a result of the Turkish invasion. Will it manage to survive this time as well? The discovery of the natural gas reserves seems to be the only way out from the dreadful economic position that Cyprus currently finds itself in.

With its ascent to power the new Cypriot government immediately found itself against the "Symbligades;" - Clashing Rocks - which in antiquity were two enormous rocks at sea which opened and closed simultaneously thus making the passage of ships difficult, if not impossible. A situation which under today's terms would be called double-deadlock since in addition to the Turkish occupation of the northern part of Cyprus since 1974, we are now faced with a dire economic situation which is threatening the country with bankruptcy.

For the record, it should be noted that Cyprus, which is in the Eastern Mediterranean, was invaded by Turkey on 20th July 1974, resulting in thousands of dead or missing persons, the occupation of 40% of its territory by Turkey, 200,000 displaced persons and a loss of 70% of its wealth-producing resources. The invasion was preceded by the coup d'état on 15th July 1974, organized by the Greek military junta. After a three-day battle, the Cypriot National Guard,

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manned by officers from the Greek mainland together with the Greek contingent stationed in the island, managed to overturn the President, Archbishop Makarios. The latter escaped abroad and while he denounced the coup at the United Nations forum, he was unable to prevent the military attack by Turkey. He returned to Cyprus in December 1974, after Turkey had already completed the second round of the invasion. The new government of Constantine Karamanlis, was also unable to help Cyprus. The latter had come to power in Greece just after the end of the dictatorship, which coincided with the end of the first round of the Turkish invasion on the 23rd of July 1974.¹

Having had expansionist designs on Cyprus for decades, Turkey used the coup by the junta as a pretext for the invasion. It used the right of intervention based on the terms of the Treaty of Guarantee.² The parties were the Republic of Cyprus, Greece, Turkey and the United Kingdom of Great Britain and Northern Ireland. However, the sole objective of the respective terms of the Treaty was the restoration of the constitutional order which forbids both the union of Cyprus with another state as well as its partition. This Treaty is at odds with the Charter of the United Nations³ which forbids both the intervention into the internal affairs of another state (article 2, paragraphs 3 and 4), as well as the use of force between states. In fact, even the threat of the use of force in the relations between states, is also prohibited. The use of force is exceptionally allowed, only on condition of legitimate defense (article 51) or on the authorization of the Security Council (Article 42) of the UN Charter.

Following the membership of Cyprus to the United Nations, the right of intervention, obviously ceased to be valid since according to article 103, in the event of a conflict between the obligations of members under the UN Charter and their obligations under any other international agreement, their obligations under the UN Charter shall prevail. Specialists such as Ian Brownlie suggest that if article IV of the Treaty of Guarantee formulates a power of forcible intervention, then the Treaty is in conflict with the principle prohibiting the threat or use of force by states in their international obligations⁴, an opinion also shared by St. J. McDonald⁵. On the same subject, Kelsen suggests that the obligations under Article 103 of the Charter, shall prevail even for treaties concluded by members with non members of the United Nations (the case of Cyprus before entering the UN)⁶. The primacy of this article is also accepted by other International Law specialists such as L

Dubouis, while Higgins indicates that any treaty with unlawful object is void, such as the case of one permitting aggression or piracy.⁷

Even with the strict interpretation of the Treaty of Guarantee, for the right of intervention to have been valid, Turkey's aim should have been the restoration of the constitutional order (article 4 of the Treaty of Guarantee), which as mentioned earlier, forbids the union of Cyprus with another country as well as its partition. Nevertheless, almost thirty nine years after the invasion, Turkey insists on the violation of the Treaty that she herself now invokes, keeping Cyprus divided. This is because the ongoing Turkish occupation violates article 2 of the Treaty of Guarantee with which the three guarantor powers are obliged to maintain the independence and territorial integrity of the Cypriot state. The invasion equally violates Article II of the Treaty of Alliance under which Greece and Turkey undertake "to resist any attack or aggression against the independence or the territorial integrity of the Republic of Cyprus".⁸

In this particular case it is worth noting that, following a relevant question by the Greek Government, the legal department of the United Nations replied on 15/5/1959 that the right of intervention could be exercised, but without the use of force. Based on the above, both the air raids of the Turkish military against Cyprus in 1964 and the invasion of the island in 1974 have the characteristics of aggression, as described in the definition given by the United Nations under the Resolution of the General Assembly no 3314 of 14/12/1974.⁹ The definition of aggression has been achieved after much discussion without of course being able to prevent the invasions that followed in various parts of the world, mainly by the Great Powers. This helps to confirm once again that it is possible for the General Assembly to be a kind of international parliament but the real power remains in the hands of the five permanent members of the Security Council which have the power of veto. The principles of the United Nations are enforced by the Security Council, as long as the interests of these five countries are not threatened.

This fact was confirmed in the case of Cyprus. Even though, especially since 1974 and onwards, Cyprus has benefited from numerous important resolutions in its favour¹⁰, both by the General Assembly as well as by the Security Council, the geopolitical interests of the US and Britain in the extended area of the Middle East, have never allowed the United Nations to proceed with sanctions against Turkey (in accordance with Chapter VII of the

Charter) and to enforce a solution based on its principles. This is further evidenced by the fact that although many of the above resolutions provided for the withdrawal of foreign troops and the return of displaced persons to their homes, in practice the occasional propositions by the United Nations for the solution of the problem have been influenced more by the results of the Turkish invasion rather than the UN's principles.

An obvious example is the Resolution of the General Assembly of the United Nations, number 3212 1/11/1974 which was unanimous and was also voted by Turkey. The latter continues to refuse to implement it despite the fact that this Resolution was also adopted by the Security Council by its Resolution 365 of 13/12/1974, thus gaining increased effect. Fortified by the fact that this Resolution contains a provision for negotiations, Turkey followed a method of procrastination, with a view to rendering permanent, with the passage of time, the result of the occupation. This was achieved by continuously raising new demands each time the Greek-Cypriot side moved towards new concessions in order to meet the Turkish-Cypriot positions. At the same time instead of working towards the return of the Turkish-Cypriots to the institutions of a common Cyprus state that was inaugurated in 1960 and from which they withdrew in 1964, it proceeded to organize in the occupied areas an illegal Turkish Cypriot state. Specifically in 1974, it drove away all the Greek-Cypriots who were in fact the overwhelming majority in those areas, as well as in the whole of Cyprus and at the same time, together with the cooperation of the British, settled in the occupied areas the Turkish-Cypriots of the free areas, forcefully creating a clearly Turkish-Cypriot area which had never existed before in the history of Cyprus.

One must note that the Turkish-Cypriots, with the encouragement of Turkey, had rebelled in 1963 against the legitimate state after the Greek-Cypriot side had submitted a list of 13 points for the amendment of the 1960 Constitution.¹¹ The reason for this was that the existing text afforded excessive privileges to the Turkish-Cypriot minority which comprised only 18% of the population and who were settled all over the island. (We are referring to the right of an extensive veto by the Turkish-Cypriot vice president of the state, the provision for separate municipalities in the six main cities, the 30% quota in the ministerial council, the parliament and the civil service, a percentage which increased to 40% in the army and the police). It is indicative of the fact that the British Constitutional expert De Smith characterized the Cypriot

Constitution as one of the most rigid, if not the most rigid in the world¹². The rebellion of Turkish-Cypriots which was supported by Ankara with air-raids against Cypriot towns and villages, including schools and hospitals, aimed at the creation of a separate Turkish-Cypriot state and the permanent partition of the island. The Cypriot Government however, with the support of Greece and the United Nations, managed to block the Turkish plans.

It should be mentioned that in this particular case the United Nations, with Security Council Resolution Number 186/64 protected the state of Cyprus by dispatching a peace-keeping force to the island while Greece sent an army division ready to intervene if Turkey attempted any landing action. There followed the report of the United Nations mediator Galo Plaza who recognized that the Cypriots were entitled to enjoy the right to self-determination without any commitments.¹³ Nevertheless, he rejected the Greek-Cypriot demand for the union of Cyprus with Greece, for the benefit of international peace, even though he considered it to be a legitimate right of the Cypriot people. Furthermore, he rejected the demands of the Turkish-Cypriots for partition as groundless. In general the role of the United Nations, with its General Secretary U. Thant, had, during this time, been very determined with actions that clearly do credit to the authorities of this organization. Particularly if one bears in mind the fact that Britain, one of the Guarantor Powers of the Cyprus Republic, had suggested at the London Conference in January 1964, the effective dissolution of the Cyprus state and the replacement of the Cyprus Government with a tripartite committee that would administer Cyprus from the British capital!

In the end, Turkey effectively materialized its threats in 1974, since the Greek junta had already recalled its army-division in 1967 and the coup had basically neutralized the Cypriot National Guard. The illegal Turkish-Cypriot state that relied upon the de facto results of the 1974 invasion and proclaimed itself a separate state in 1983, was vigorously denounced by the Security Council Resolutions 541/1983 and 550/84 and until today only Turkey recognizes the pseudo-state. However, because of the opposition by the Anglo-American axis, this denouncement never led to the imposition of sanctions as these are provided for in Chapter VII of the United Nations Charter. They could have obliged Ankara to withdraw its occupation-army and allow a viable solution to the problem. This result bears the responsibility, at least in part, of the Greek-Cypriot political leadership who under the influence of a painful balance of

power and a miscalculation of events, instead of commencing negotiations from the removal of the illegal occupation, agreed to a number of concessions which could lead to the establishment of a new state based on the results of the Turkish invasion. So the long-standing negotiations did not allow for a just solution to the problem despite the continuous and unilateral concessions by the Greek-Cypriot side. On the contrary, Ankara, by neutralizing every voice of moderation among the Turkish-Cypriots, managed to promote its partitionist targets. These were effectively adopted by the United Nations in 2004 with the Annan plan¹⁴, named after the General Secretary of the United Nations at the time, which instead of serving the interests of the Cyprus people as a whole, served the expansionist plans of Turkey.¹⁵

The Plan was overwhelmingly voted down by the Greek Cypriots, with the majority vote approaching 76%, whereas the Turkish Cypriots together with the Turkish settlers, who numerically were, as is the case now, more than the Turkish Cypriots, voted for it. Turkey had from the following day of the invasion, applied a programme of colonization in the occupied areas and even though this has been condemned by the UN, it continues to this day.

It is of course very disappointing that the UN, having prepared a solution with considerable deviation from its principles, also ended up accepting its imposition, despite the violence of the occupation and the illegal participation of settlers in the voting procedure. Nevertheless, the plan was rejected by the Greek Cypriots because instead of starting from the initial structure of the state and through the talks, modifying it with the agreement of both communities, it actually tried to create a new state which was based more on the irreversible “achievements” of the Turkish invasion, rather than the principles of the UN.

Specifically, it had to do with the notorious “parthenogenesis” which foresaw from the onset, the establishment of two constituent states and led not to the restructuring of the Cypriot state, from a unitary one to a federal one, but to a virtual confederation of two equal states, which could easily be separated into two separate independent states. In addition, the Turkish-Cypriot constituent state, despite the fact that it would represent the minority of the Cypriot population, would have Turkish-speaking majority, which meant the deprivation of the basic human rights of Greek-Cypriots (right to property, settlement and free movement), who had been displaced from this area and were its legal residents.

Finally, this plan, which in fact was impeaching the basic provisions of the Universal Declaration of Human Rights and the European Convention of Human Rights, also lacked in security for the Greek-Cypriots, since it maintained Turkey's right to intervention, with the parallel demilitarization of Cyprus. Finally, the return of displaced Greek-Cypriots to the Turkish controlled areas, would have been limited and over a long period of time, whereas the dissolution of the Cypriot state would have been immediate. Furthermore, Mr Erdogan, the Turkish Prime Minister, had stated that if Turkey was not accepted into the EU as a full member, then these obligations would no longer apply. This would literally make the Greek-Cypriots hostages of Turkey, bearing in mind that there are still objections to the full membership of Turkey from powerful member-states of the EU, such as France and Germany, the latter preferring a special agreement with Turkey.

With regard to the economic consequences of the Annan Plan if it were applied, it is enough to say that under the most basic of predictions, roughly 15 billion euros would have been required, which given the Cypriot economy's problems today, would mean its complete and immediate collapse.¹⁶

The rejection of the Annan Plan, infuriated the Anglo-American axis, as well as the UN officials, who took it for granted that the plan would have been voted for, despite the fact that, as it was later admitted by the US Assistant Secretary for European and Eurasian Affairs Daniel Fried, it was a gift towards Turkey. Most of their anger was directed towards Tassos Papadopoulos, who as President of Cyprus at the time had asked the Greek-Cypriots to vote against the plan. However, with the cooperation of the UN's representative in Cyprus Ibrahim Gambari, he quickly came up with a new formula whereby the main aspects of the Cyprus problem would have been discussed by respective committees of both Greek-Cypriot and Turkish-Cypriot experts, in order to reach a basis for negotiations. With this basis, the main talks between representatives of both communities could begin. This was the agreement that came to be known as the 8th of July Agreement.

This endeavour, that was the right move made by the Greek-Cypriots in order for them to avoid a solution that obviously was neither fair, nor practical, and certainly the worst that had ever been proposed by the UN, came to an end with the election of the next President of the Republic, Demetris Christofias. The new President, who was the General Secretary of AKEL, a traditionally left

wing party with a communist background and deep long lasting roots in the Cypriot community, won the elections after receiving the support of the centre-right democratic party DIKO, the social democratic party EDEK and the Green Party. President Christofias quickly agreed to a new basis for negotiations which ignored basic democratic principles such as the majority rule as well as the consequences of the Turkish Invasion and proceeded to a new round of talks, based on the two component states as described in the Annan Plan. However, until the end of his 5-year term and despite his serious concessions (the remaining of 50,000 Turkish settlers, presidency by rotation, cross-voting, free movement of Turkish citizens to Cyprus, even before the accession of Turkey to the EU), not only did he not manage to sway the Turkish demands but instead, made them even more stringent.¹⁷

In reality, both the previous leader of the Turkish Cypriots, Mehmet Ali Talat and the new one, Dervis Eroglu, obviously with the backing of Ankara, claimed that in Cyprus we do not have one people consisting of Greek-Cypriots and Turkish-Cypriots, but two separate peoples who have a separate right of self-determination and thus are entitled to a separate state each! It is definitely notable, that the new stance of the Turkish-Cypriots was in obvious contrast to international law, the UN resolutions and the basis for negotiations that referred to one federal state with a federal structure and not two states. However, the talks continued with no reaction from the UN representative Alexander Downer, or President Christofias, who representing the Greek-Cypriots at the talks, could have brought them to a halt, if the Turkish-Cypriots did not return to the basis for negotiations that had been agreed to.

This is in short the situation the new president, Nicos Anastasiades, is faced with. The latter, president of DISY, traditionally a right-wing politician, had strongly supported the Annan Plan during the 2004 referendum and has not appeared to change his mind since.

This new Government is currently at a dead end; a political one due to the Cyprus problem and an economic crisis that cannot wait. Things have become even more difficult due to the fact that the previously blossoming economy is now in a disadvantageous position, making the Greek-Cypriot position obviously more vulnerable. We have already noted that despite the fact that due to the Turkish Invasion of 1974, Cyprus received a great economic blow losing 70% of its wealth-producing resources, it survived and just before the end of the 80's,

its economy managed to return to the level it had been before the invasion, due to the extreme effort of its people and a long period of industrial peace.

Christofias' administration, albeit taking over an economy with excellent fiscal finances characterized by a sizeable budget surplus and low debt levels, had unfortunately managed to create a feeble fiscal situation. The imprudent and at times economically irrational policies implemented during his administration led to unproductive overspending and the accumulation of high deficits – without taking any corrective measures – that resulted in the build-up of much higher debt. Not being able to access the international market since 2011, maturing debt was basically refinanced through the issuing of Treasury-bills, which creates another issue for Cyprus: its over-reliance on shorter-term debt and the ensuing refinancing risk. The above actualities, in conjunction with the haircut on Greek sovereign bonds and the ill-guided decisions taken by the two largest banks (explained in subsequent paragraphs), led to the current crisis.

As a result, the new administration that came into office in march 2013 inherited a situation of an unprecedented magnitude and dimension: based on PIMCO's adverse scenario on the potential recapitalization needs of the bank sector and the Troika's assessment (November 2012 estimates), total needs were estimated close to 17,5 bln - 7,5 bln for the public sector (deficit financing and debt rollover needs) and 10 bln for the banking sector. However, due to the delay in reaching an agreement and, to a much greater extent, owing to the punitive nature of the "solution" imposed by the Troika, recent estimates raise the potential amount to 20-23 bln.¹⁸

The projected capital needs of the banking sector are, in principal, the result of the following factors: -

The first shock came from the substantial chunk of capital (about 4,5 bln) that had to be written-off due to the (political) decision taken at an EU council level meeting in Brussels (26-27 October 2011), where European leaders decided to impose an 80% haircut on Greek debt held by private investors. Surprisingly, and to our dismay, president Christofias did not request any provision to protect the country's banks or secure their recapitalization from Troika funds, similar to the one agreed for Greece on that particular day. It is worth noting that, relative to each of the affected country's GDP, the financial hit on Cypriot banks was the highest

of all. Nonetheless, the reckless behaviour of the Bank of Cyprus and Laiki Bank executives who in effect, speculated and overloaded their portfolios with Greek bonds, should also be highlighted here.¹⁹

An additional determining factor was their substantial operational exposure to the Greek economy and the subsequent sharp rise in non-performing loans. However, in the case of Laiki Bank, this was only one side of the story. Laiki's (Marfin Popular Bank at the time) high exposure to the Greek economy was exacerbated by its best-practice lending activities that took place in Greece through its largest Greek subsidiary, the Marfin-Egnatia Bank in the period 2006-2011. It is alleged that preferential loans, the majority of which were either written off or became non-performing amount to around 4bln euros.²⁰

With regard to the Bank of Cyprus, although it suffered lower losses from the haircut imposed on its Greek bond holdings, its decision to expand rapidly in Russia through the acquisition of Uniastrum Bank – admittedly at a hefty premium and contrary to its consultants' opinions – is a chapter still under investigation.

The new Cypriot administration was strongly unwilling to endorse the Troika demand for depositors' contribution. The admittedly selective, shock treatment rendered by the Eurogroup on 15 March 2013 meeting was extremely dissimilar to the rescue packages given to other EU countries that sought assistance (i.e. Greece, Ireland and Portugal). More specifically, the agreement entailed: a 10 bln loan from the Troika, proceeds of around 1,4 bln from privatizations and another 5,8 bln to be collected from a one-off levy-haircut imposed on depositors.²¹ Contrary to international and domestic law protecting property rights and calling into question the EU guarantee on deposits under 100,000, the agreement provisioned for a 6.75% loss of insured depositors and a 9.99% loss/haircut on funds, in excess of the insured threshold of 100,000.

The proposed levy would have been a great blow not only to Cypriot depositors but also to Russian depositors and businesses that long supported the Cypriot financial system. Realizing the potential ramifications of a deal entailing a haircut on depositors, protests against the agreement were organized in Spain and Italy. As expected, the political parties in Cyprus, highly displeased with the provisional agreement reached at the Eurogroup

on 15 March 2013, rejected it. All political parties voted against it, with the exception of the party supporting president Anastasiades that decided to abstain in the vote.²²

Being small and inconsequential to the EU as a whole, Cyprus proved the ideal means to test the effectiveness of the new resolution tool, bail-in of creditors including depositors. Thus, during the early hours of Saturday 23 March 2013, a revised deal was agreed upon which, while sparing insured depositors, required amongst other things, the use of creditors and depositor funds (bail-in funds), for the restructuring of Bank of Cyprus and Laiki Bank.

Parties involved in the deal rushed to proclaim that the deal had averted the disorderly bankruptcy of the two banks and the Cypriot state. However, the true magnitude of its ramifications will be felt once the temporary capital restrictions – placed for the first time in the Eurozone’s history – are lifted. Although EU officials and Eurogroup members depicted the deal as a one-off to calm investors and markets, the consequences of the Cyprus precedent at the EU level is more of a medium-term nature - and will haunt its markets.

As mentioned previously, the cornerstone of the new agreement was the restructuring of the two largest banks. Laiki Bank was resolved using a good/bad bank model. Its healthy assets were transferred to the Bank of Cyprus along with its guaranteed deposits and its 9,1 bln in Emergency Liquidity Assistance (ELA) commitments to the Central Bank of Cyprus. Assets not transferred to Bank of Cyprus will go through a liquidation process, the proceeds of which will be used to pay all creditors – including uninsured depositors – that were left behind. Bank of Cyprus will be recapitalized through bailing-in creditors and uninsured depositors. Depositors with funds of more than 100,000 at Bank of Cyprus could lose up to 60% of those holdings. Laiki Bank and the Bank of Cyprus were also forced to sell, at a substantial discount, their Greek operations to Piraeus Bank as part of the Troika’s demand to reduce the country’s banking sector size to the EU average by 2018 (350% versus 750% in 2012).²³

The financial sector was the driving force propelling the Cyprus’s economy in recent years; it is by far the single biggest GDP contributor. The banking sector, high-quality financial services and low corporate tax, which will be raised by 2.5% aligned with Troika demands, were the pillars of the Cypriot business model. Now, a new economic system has to be found. It is worth

noting that delegates from firms located in other countries such as Germany, France and Latvia are already approaching customers (primarily wealthy businessmen of Russian origin) of local banks, accounting offices and law firms. They are in essence, going after the money that they themselves deemed to be of uncertain business origin. In all likelihood, money laundering suspicions vanish and dirty money is instantly purified when these are in one of the banks located in the core countries of Europe or in a country within their realm! At any rate, the veiled intentions of the punitive “rescue” plan imposed on Cyprus are rather evident and none of the bigger EU countries would have ever been treated in the same fashion.

Admittedly, the Troika rescue plan has severely damaged the country’s reputation as a financial center by crippling its banking sector - hopefully not fatally considering the high probability of a bank run once capital restrictions are lifted. At the same time though, it succeeded in irritating Moscow. Right after the announcement of the first agreement, Moscow expressed her strong disapproval of the agreement’s content as well as her irritation to the fact that no prior consultation took place with her although Russian interests were to be heavily affected. Moscow appeared also displeased with the Cypriot government for not informing them accordingly prior to agreeing to the deal. When the then Cypriot Finance Minister Michalis Sarris flew to Moscow in search of additional financial assistance and/or find a buyer for the ailed Laiki Bank, the result was one that many had not anticipated. Even after several days of talks, Sarris returned to Cyprus with no tangible results except Moscow’s promise to resume negotiations for the restructuring (possible extension and lower interest rate) of the existing 2,5 bln loan given to Cyprus in 2011 and maturing in 2016 after, however, an agreement would have been reached with the Troika.²⁴

Undeniably, Moscow that had in numerous times in the past assisted Cyprus in both political and economic matters, opted not to damage Russian-EU relations, at least not in this particular point in time. After all, EU countries are Russia’s largest consumers of its natural gas production. On the other hand, Cyprus is far less important, at present at least, given the long horizon that will take for her to become an important player in the EU natural gas market. Moreover, Turkey, citing her usual allegation of Turkish-Cypriots’ entitlement on Cyprus offshore gas fields and disputing, once more, the Cypriot Exclusive Economic Zone, seized the opportunity to raise her

objections in using the gas fields in any way, either to strike a deal with Russia or to sweeten the deal with Troika.

On account of the developments that took place in the past weeks, namely the heavy hit on Russian interests and the alarming to Nicosia statements made by the Russian Prime Minister following the announcement of the deal, many deem that Russia may reexamine its relationship with Nicosia. Unfortunately, Greece and Cyprus are highly vulnerable in a period that geopolitics in the area appear more shadowy than ever before and recent developments in the whole Middle East signify a potential reshaping of power equilibrium. It is worth noting that there is also a new chapter that is being written: the EU has shown for the first time that it is definitely not afraid of conflict with Moscow despite Europe's high dependency on Russia's natural gas. How this will affect Russia's relationship with the EU, and primarily Germany, is yet to be seen.

Being under constant economic surveillance and scrutiny has not only economic implications but also several political repercussions and a state sovereignty dimension. The German Federal Minister of Finance, Wolfgang Schaeuble, already reminded the Cypriot people that in 2004 they had rejected the Annan Plan.²⁵

All in all, the Cyprus economy is now under severe stress and there are serious concerns that the economy will dip into a prolonged recessionary spiral. The controversial, but definitely unjust, decision of the Eurogroup to bail-in uninsured depositors has created two major hazards: it flattened the financial sector, the main driver of economic development, and gave rise to the possibility of massive capital flights once capital restrictions are lifted. It is likely that the Troika's apparent one-size-fits-all austerity mentality will exacerbate things leading to a prolonged slump that will shrink the domestic economy beyond recognition. In particular, consumption, production and welfare state have shrunk significantly over the last few quarters, while unemployment rate climbed to around 14%.

Ironically, the "unique" Cyprus deal is admittedly not so unique. As clearly stated by the President of the Eurogroup, Mr. Jeroen Dijsselbloem - albeit retracting it after witnessing the market's reaction including the tail spin of the euro rates - the participation of all shareholders, unsecured creditors and large depositors, as in the Cyprus bailout deal, should be the model for the future.²⁶ Despite the rushed reassurances given by many EU politicians and

technocrats at the EC level that Cyprus is a unique case with exceptional challenges, the particulars of the Cyprus deals continue to fuel market uncertainty particular in the EU peripheral countries.

Tactlessly, the crisis is aggravated by the situation in the political front, where politicians began a blame-game over responsibility for the country's economic misfortune. Even though the majority of the people consider ex-president Christofias's administration as the one to blame the most, the current administration has not shown that it possesses the right people or holds the solutions desperately needed to lead the country out of this situation. The termination of the Central Bank's deputy governor by President Anastasiades and the constant pressure put on the Central Bank's governor, Mr. P. Demetriades, by everyone except left-wing party AKEL in order to resign, seems more like part of the widened blame-game rather than actions aiming to benefit the country. Mr Demetriades, who is considered an AKEL man, is being accused by lawmakers that he misled the Parliament over events relating to the crisis and that he commissioned a private firm, Alvarez & Marsal, to investigate only Bank of Cyprus for potential responsibilities whereas Laiki Bank is considered to have the greater share of blame.²⁷

Even though the Cypriot state is going through trialing times and is even in danger of bankruptcy, the natural gas fields that have been located in the Cypriot Exclusive Economic Zone seem to offer a solution to the economic problem of Cyprus. The reserves could in the medium term, rectify the economic situation and simultaneously offer the potential for a viable solution to the Cyprus Problem, provided of course that the necessary tact is used during its management, in a timely manner. However, Cyprus should first convince the most powerful of its partners that its natural gas fields not only suffice in meeting the Cypriot needs but it is decidedly contributing to the solution of the energy problem of the European Union which currently depends on the energy reserves of Russia.

This strategy could be more productive if Cyprus cooperates with Greece and Israel. The latter, due to its geographical position, its power and the economic strength of Jews internationally, has great influence over the EU and the USA. However, at least some of Cyprus's Partners, which at the same time are potentially her lenders, are following a completely opposite strategy. Specifically, bearing in mind that the dreadful economic situation of Cyprus

is making her more vulnerable, they have threatened and pushed for conditions which, ridiculing the notorious partner solidarity, enables them future control over the exploitation of the Cypriot fields of natural gas, as well as the solution of the Cyprus Problem.

At the same time, the recent reconciliation between Israel and Turkey, following the intervention of the USA, should be considered as a negative outcome for Cyprus, even though during a recent visit to Israel of the Cypriot Ministers of Foreign Affairs and of Commerce, Industry and Tourism, Mr Kasoulides and Lakkotrypīs respectively, appeared to be assured of the contrary. The intervention of the USA is possibly connected to their strategic interest in the area. Nevertheless, not wanting to put all her eggs in one basket, Israel is not expected to completely align her interests with those of Turkey and the USA, who would both prefer Israel to export her natural gas via Turkey.²⁸

In short, the lenders believe that with such conditions, they would not have to upset Turkey wherein lie the interests of USA and the most powerful of the EU states and which of course, do not favour Cyprus or Greece. In reality, the discovery of the fields of natural gas in the eastern Mediterranean, has not only revived the notorious Eastern Question but it has also created the conditions for a tough game of strategic poker, based on the significant fields of natural gas in the Eastern Mediterranean.

P.S.: After the finalisation of this article, the parliament of Cyprus approved the international rescue loan deal on the 30th April 2013, by a slim majority, with 29 lawmakers voting in favour and 27 against.

NOTES

1. G. Clerides, *Cyprus: My deposition*, Vol. 4, pg. 30.
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3. *The U.N. charter*.
4. I. Brownlie, *International Law Conference on Cyprus* (1979), p 208-209.
5. St. J. McDonald, «International Law and the conflict of Cyprus» (Canadian Yearbook of International Law, 1981), p.3.
6. H. Kelsen: *The Law of the United Nations, A Critical Analysis of Its Fundamental*

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7. L. Dubouis: «Chypre et le droit international» (*Hellenic Review of International Relations*, 1981-2), Vol. 2, No. 2, p. 415. R. Higgins: *The development of International Law through the political organs of the United Nations*, p. 276.
 8. Article II of the Cyprus Treaty of Alliance, 1960.
 9. The UN Resolution No 3314/74 (Definition of Aggression).
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