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MARCH  
2013

## CYPRUS: a soft bailout in return for reunification?

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**C**an a recently bailed-out country put four decades of conflict and division to an end? This is one of the fundamental questions raised by the results of the Cypriot elections of February 2013. The winner, Nicos Anastasiades, elected with a 57% share in the second round, is in favor of the rescue, as well as changing the country's reunification negotiation strategy. However, the newly-elected President has already made it clear that his top priority will be overcoming the economic crisis.

In 2004, the Republic of Cyprus joined the European Union, having not yet solved the issue of the division of the island. The United Nations, backed by the EU, proposed a reunification plan that was put to referendum. Three out of four Greek-Cypriots voted against the so-called Annan Plan while, in the north, two out of three Turkish-Cypriots voted in favor. Joining the EU did not catalyze reunification and, almost ten years later, Cyprus' relations with Turkey, and the prospect of ending the conflict, have shifted into the background. The February 2013 campaign focused on the economic agenda and the crisis affecting the country caused by the Cypriot financial system's over-exposure to Greek sovereign debt. While in former elections, borders, concessions, refugees and negotiation strategies were at the center of discussion, in 2013, words like bailout, austerity, pensions, unemployment and Troika replaced them.

Nicos Anastasiades belongs to a pro-European Christian Democrat party, the Democratic Rally or Dimokratik3s Sinayerm3s (DISY), which openly supported the Annan Plan in 2004. But this is not the reason why many Cypriots entrusted him to rule the country. Rather, Cypriots are hoping for him to negotiate a rescue plan with the Troika that will prevent the country's financial collapse. Despite the havoc caused by these plans in neighboring Greece and Portugal, there is a common understanding among Cypriots that there is no alternative to bailout, austerity and privatization.

Although the Cypriot ballot needs to be understood in economic terms, the election might have an impact on other fields, especially reunification. Indeed, the Turkish Minister of European Affairs, Egemen Bagis, has stated that Turkey was ready to

'press the reset button' on bilateral relations, and that there was a real chance of revitalizing the political process. The Turkish-Cypriot President, Dervis Eroglu, has also spoken about his sense of confidence and historical responsibility.

This is not the first time speculations about the potential unfreezing of negotiations have arisen with the arrival of a new President. In 2008, when Dimitri Chirstofias was elected, many highlighted his old friendship with the then Turkish-Cypriot President, Mehmet Ali Talat, as an asset for the reunification process. Negotiations resumed with no significant results and little by little confidence disappeared. Could now be different? The main difference vis-à-vis 2008 is that Cyprus is going through an extreme economic depression and increased international dependency. In fact, the previous government already reached a preliminary agreement with its international creditors to inject €17.5 billion into Cyprus' economy, an amount equivalent to its GDP.

Will the expected bailout have a positive or a negative impact on the reunification negotiations? The bailout could result in a more open and positive stance in negotiations for three reasons. Firstly, the government could be pressured by international creditors, not only to implement economic reforms, but also to put more effort into solving the territorial conflict. Secondly, peace dividends could be particularly appealing in tough times, concretely in the energy domain. Reunification could allow for an earlier exploitation and commercialization of natural gas discovered by the southern coastline of the island. The key is not only to achieve an agreement with Turkey on Exclusive Economic Zones but also to be able to pump the gas in a quicker and cheaper way using pipelines that, through Turkey, could link with other existing channels supplying European continental markets. The third reason is that the prospect of a resolution of the conflict would be a real political boost for a government drowning in economic problems, creating favorable conditions for a smooth economic recovery. Nicosia might be willing to portray itself in front its European partners as an actor committed to solving a conflict that has implications far beyond Cyprus itself. The conflict pollutes the EU relations with Turkey and hampers security-related transatlantic cooperation. Repeated blockages to EU-NATO cooperation in peacekeeping missions, due to Turkey refusing to accept Cyprus as part of the decision-making process, are a telling example.

However, Anastasiades and his government will only be capable of relaunching reunification negotiations if they keep the support of public opinion. If the bailout negotiated with the Troika imposes extremely painful conditions, if it has a high social cost, as seen in the cases of Greece or Portugal, and consequently the approval rating of the President dramatically drops, his leverage for negotiation will be weakened substantially. Reunification and bailout could occur simultaneously, but if the bailout implies massive civil service lay-offs, the social safety net is significantly lessened, or the burden of the financial problem is placed on the average citizen, then the window of opportunity to solve one of the oldest conflicts in Europe will close rapidly.