When All Players Can Win

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First published: November 2013

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>When All Players Can Win</td>
<td>1</td>
</tr>
<tr>
<td>References</td>
<td>10</td>
</tr>
<tr>
<td>About the Authors</td>
<td>11</td>
</tr>
</tbody>
</table>
When All Players Can Win

Preface

When the Cypriots got their independence in 1960 very few realized the value of it. Instead leadership among both communities treated it as a transition to other ultimate aims. Hence independence was not given a real chance.

Events in 1963 and 1974 destroyed the opportunity of a smooth maturing of the new state and trapped the lives of three generations of Cypriots into mistrust, nationalism and human suffering including death, loss of property, economic hardship and disillusionment.

Misguided visions and mismanagement by political leaderships both at home and in the so-called “motherlands” wasted 53 years of history and human welfare in a way that today the Cyprus problem remains unresolved and the Cypriots continue to suffer. As a result of the continuing stalemate, neighbouring countries and international partners have also started to lose out on opportunities which peace and cooperation in the area of the Eastern Mediterranean could bring.

Forward Looking Approach

Historically, the personalities and politics of the leaders of the two communities in Cyprus, as well as those of Greece and Turkey, did of course affect the evolution of events on the ground and any common ground reached. That being said, the approach of this study is a forward looking one, rather than a backward looking approach of who is to blame for what has or has not happened and what has or has not been achieved.

The approach of this study is to look forward as to the common target to which current leaders of all involved parties should aim, so that all involved parties emerge as winners. Such is the call of history.

It is only common sense that a win-win solution of the Cyprus problem will be the easiest to be achieved and indeed the most sustainable. The framework of such a solution has already been shaped and agreed over time by the leaders of the two communities in Cyprus and has been endorsed by the United Nations (UN), the European Union (EU) and the international community. It refers to the reunification of Cyprus on the basis of a bizonal, bicomunal federation, with political equality as defined in relevant UN resolutions.

If an agreement on the basis of this commonly agreed framework is to be reached, it is important that all involved parties understand that the attainment of the common target will give rise to significant net benefits for all and that the solution will render everybody a winner. Conversely, if it is not understood that a win-win solution is the only attainable solution – and more time is wasted – then developments on the ground and in the international environment (in ways not all of which might be anticipated)
will keep making the resolution of the problem even more difficult and eventually render everybody a loser.

**Economic Benefits**

In their “The Day After” trilogy\(^1\) the three ladies explained how the reunification of Cyprus would yield huge economic benefits to all the Cypriots as well as to Greece and Turkey. In quantifying the benefits of reunification, they found that Cypriots will benefit from an annual peace dividend of €12,000 per family, as a result of a three percentage point increase in real GDP growth per year – over a five year period – which would also give rise to the creation of 33,000 new jobs.

They based their findings on the opportunities for trade in goods and services between Cyprus and Turkey that would be unblocked once an agreed solution is found that would be reunifying the island and the relations between the whole of Cyprus and Turkey would normalise. Exports of goods to the whole of Cyprus from Turkey and exports of services from the whole of Cyprus to the vast neighbouring Turkish market would start flowing in significant and increasing numbers, given the complementary strengths of each economy in the respective areas. A significant boost to economic growth will also be given by the reconstruction effort, in the sense that new infrastructure and housing will be required, especially with reference to the re-building of the ghost city of Varosha, as well as in association to any resettlement that a solution may involve. Furthermore, the removal of political uncertainty would lead to increased flows of foreign direct investment not only to Cyprus but also to Turkey and Greece.

Not to mention the huge savings on military expenditure that will be made by all involved once the Cyprus problem is solved: savings on military expenditure made by Turkey in maintaining troops in Cyprus; savings by both Turkey and Greece through a reduction of the need of armaments lined against each other at the borders between them and in the Aegean; and savings on military expenditure made by the Republic of Cyprus to defend the demarcation line dividing Cyprus. Demilitarisation will relieve the public finances of Cyprus from an unsustainable burden and will contribute to the efforts to save whatever is left of the Cypriot economy. Reduction on armaments will also be conducive to the efforts to revive the Greek economy.

Economic benefits accruing to Turkey out of the reunification of Cyprus were estimated in our Day After III report to amount to a minimum of €17.4 billion per year as analysed in the table below:

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\(^1\) The reports (Mullen, Oğuz, & Antoniadou, 2008; Antoniadou, Oğuz, & Mullen, 2009; Çilsal, Antoniadou, & Mullen, 2010) were published by the Peace Research Institute Oslo (PRIO). The authors, Özlem Oğuz Çilsal, Praxoula Antoniadou Kyriacou and Fiona Mullen received the Stelios Award for Business Co-Operation in Cyprus. The reports were presented at the European Parliament on December 1, 2010 (“Seminar on Commercial Opportunities”, 2010).
A full analysis of the derivation of the above estimates can be found in the third report of the trilogy. In short, the report indicates that a peaceful solution of the Cyprus problem will have positive effects on a number of sectors in the economy of Turkey.

Concerning tourism, Turkey will become able to utilise fuller its huge potential, through the combination of the tourist product of the Eastern Mediterranean, and the appeal that a combined destination of say, Cyprus, Turkey and Greece would have to potential long distance visitors.

Transportation will immensely benefit by the opening of Turkish ports to the EU’s third largest fleet and the revenue to be earned from the servicing of the ships at the ports.

Financial intermediation is the fourth largest economic sector in Turkey, yet most business is generated domestically. With the peaceful reunification of Cyprus, whereby the EU *acquis* will be applying to the whole of the island, Turkish banks will enter into a position where they will be able to broaden their base in the EU market, through their branches or subsidiaries in Cyprus – until of course the full accession of Turkey to the EU is achieved.

**Energy**

Energy constitutes of course the largest potential source of benefits for all future partners in the area.

Cypriots – both Greek Cypriots and Turkish Cypriots – will be benefiting from the domestic use of cheaper, less polluting own natural gas. Cyprus currently spends more than half a billion euro per year for the import of oil used for the production of
electricity. This amount will be saved with the use of own natural gas, while costs of production in the economy will dramatically be contained, thus leading to an increase in the competitiveness of the economy.

Turkey is a large economy with huge needs of imported energy. A peaceful solution of the Cyprus problem will open the way for imports of natural gas from a close neighbour, at a very low transport cost. Such a development will render the strong economic growth displayed by the Turkish economy in recent years sustainable, through the reduction of production costs and the boosting of competitiveness.

At a second stage, Turkey and Greece who are currently cooperating on the transfer of Caspian gas, through Turkey and Greece to Europe, could enlarge the sphere of cooperation by allowing Cypriot – and for that matter Israeli, Lebanese and Egyptian – gas to be transferred through this common infrastructure, namely Trans Adriatic Pipeline (TAP) and Trans Anatolian Natural Gas Pipeline Project (TANAP), to Europe. Such a development will create significant financial and political benefits for all participating countries. Producing countries will benefit from the availability of a low cost transportation solution of their exports to Europe, while transfer countries will benefit from the associated transit tariff and the political appreciation of producers and receiving markets.

The above analysis on energy is additional to the estimates made in the Day After III report, since at the time of writing that report, the prospect of early extraction of natural gas offshore Cyprus was not in the horizon.2

Apart from savings on reduced armaments and the additional transit tariff to be imposed on Cypriot gas flowing through the Trans Adriatic Pipeline, Greece will also benefit in terms of the further normalisation of relations with Turkey once the Cyprus problem is solved. Greece will also be benefiting from the additional flow of tourists to a combined destination, while its shipping business will benefit from the unrestricted visit of ships to Turkish ports.

Perhaps the greatest gain to all countries and communities involved will be the huge inflow of foreign direct investment that will inevitably flow into an area from which political risk and uncertainty have been removed and in which huge opportunities arise both with reference to the energy factor as well as to the reconstruction effort following a solution in Cyprus.

Benefits of a Solution to the Turkish Cypriot Community

Despite all developments so far, the northern part of Cyprus is still under isolation. It has political and economic relations with Turkey only. Being isolated from international markets deters economic and social improvement and creates instability in the north. The economy is not sustainable and has serious structural problems. There is a lack of access to international markets. The decision of the European Court of Justice (ECJ) in

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2 What was instead considered in the Day After reports, was the possibility of transferring Russian gas to the Mediterranean, through Blue Stream-2.
1994 that export and phytosanitary certificates issued by authorities in the north were no longer accepted by the EU\(^3\), increases the isolation of the economy. The export of textiles, potatoes and citrus products showed a dramatic decrease. The decision of ECJ makes Turkey the main trade partner.

The budget deficits are financed by Turkey in the form of aid and credits through economic and financial protocols. This dependency on Turkish aid has increased lately with authorities facing difficulties even for the payment of salaries of the civil servants. Since 1977, overall, Turkey provided around 6.6 billion USD to the north of Cyprus till 2010.

The settlement of the Cyprus problem, besides all other benefits, will stimulate government and policy makers to introduce badly needed structural changes in the economic system that is inefficient under the current circumstances. Especially, full participation of the Turkish Cypriots in the EU membership and the implementation of the *acquis communautaire* in the whole of Cyprus, will bring fundamental and much needed changes to the system. In the case of settlement, the aids and loans currently granted by Turkey could be used to boost the economy in the north by financing the investments for long-term development.

There is no doubt that the settlement of the problem will bring stability, new prospects and will boost the economy. The comprehensive settlement of the Cyprus problem will yield huge economic and political opportunities in the region, mostly for Cypriots and their businesses. The benefits for Turkish Cypriots would even be greater. Since the solution will bring stability and confidence to the island, the investment climate that will be improved will result in an inflow of foreign direct investment and in the creation of various opportunities especially in tourism, trade and higher education.

The solution will without doubt allow the unhindered export of Turkish Cypriot products to Europe and other countries, as well as the full participation of Turkish Cypriots in economic, social and political life, both at home and abroad. This will open the way for investments and will stimulate trade and tourism. It will also encourage the businesses to focus on producing the most competitive products and improve standards.

With acknowledgement of the Famagusta port and of the Ercan airport as international ports, outward trade of goods and services will immensely grow. Greater choice of routes and more cost effective flights will open the way for higher numbers of tourists, especially when the whole of Cyprus will be marketed as a unified destination after a solution. It is important to understand here that the operation of these two ports as international ports will not only benefit the Turkish Cypriot community but also the Greek Cypriots since facilitation of trade and of tourism will concern the whole of Cyprus. Furthermore, it will remove any unfair competition to other ports in Cyprus which are currently subject to much higher taxes and operation costs, as these derive from international regulations. Additionally, the ability of Cyprus Airways to fly over

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\(^3\) Although this decision did not ban the export from the north, it imposed tax on goods.
Turkey will greatly reduce its operation costs and help towards rendering the company an ongoing concern.

In this regard, the authors consider that acknowledgement of the Famagusta port and of the Ercan airport as international ports, in combination with the return of the fenced city of Varosha to its pre-1974 owners will greatly enhance confidence of both communities into a solution. The benefits of all parties will multiply if such a confidence building measure will include the opening of ports and airports in Turkey to Cypriot vessels, as well as the unblocking of frozen chapters in the accession negotiation process of Turkey towards the EU. Above all, such an inclusive confidence building measure will restore faith in the minds and hearts of all Cypriots that after all, a solution is indeed feasible and possible.

The higher education sector in northern Cyprus will eventually benefit from being integrated in the Erasmus, Socrates and Bologna processes that are not accessible under the current status quo. The universities excluded from the Bologna process are still attracting a lot of students from Turkey and other countries, which plays a vital role in the economy. Higher education is one of the main sources of revenue mitigating the current account deficit in the north. The number of foreign students was around 45,000 in these universities (2012). This number is expected to double in the case of settlement.

Apart from the economic gains that reunification will bring, the full participation of the Turkish Cypriots in the EU membership will improve the quality of their lives and will allow the development of a new and more efficient political, administrative and economic structure in the northern part of the island.

Due to the handicaps in the economy and foresight of uncertain future, educated young Turkish Cypriots tend to emigrate or not to return back after university studies. With the new investments, developments and employment opportunities, emigration will be reversed. Of course, brain drain is a phenomenon that has now also started to be witnessed amongst the youth of the Greek Cypriot community. This has been the repercussion of the severe economic crisis that befell the economy in the south.

A solution peacefully reunifying Cyprus, will lead to fast and high economic growth, and the creation of thousands of jobs, thus leading to the reduction of unemployment and to the return of young Cypriot minds to their homeland.

According to the projections in the Day After I (Mullen, Oğuz, & Antoniadou, 2008) and Day After II (Antoniadou, Oğuz, & Mullen, 2009), the settlement would generate an additional annual growth of €4.1 billion in gross output terms in the first seven years, so that each family would benefit from an annual peace dividend of €12,000. Real GDP growth would increase by an average of 3 percentage points per year, while a minimum of 33,000 jobs will be created over the first five years following the solution (Antoniadou, Oğuz, & Mullen, 2009). It should of course be remembered that these estimates had not taken into account the huge growth possibilities that can arise from the peaceful exploitation of natural gas (as these are explained in the section under energy).
The above analysis addresses scepticism that settlement will bring huge costs. It is instead explained that costs associated with the reconstruction effort, including investment in infrastructure and restitution of housing or building of new housing, comprise investment in economic terms, which in itself creates economic growth and new jobs. It is therefore very important to highlight that these investment costs will turn into long-lasting benefits.

In the Annan Plan period, expectations for reunification amongst the Turkish Cypriot community were elevated to a very high level and this resulted in a boom in the economy, deriving mostly from the construction sector. It faced the highest economic growth since 1978, while the yearly economic growth was around 4.6% per year – on average it reached 13.4% annual average (11.4%, 15.4%, 13.5% and 13.2% in 2003, 2004, 2005 and 2006 respectively) and faced negative growth rates in 2009 and 2010. The estimated growth rate is 3.6% in 2011, 2.8% in 2012 and 2.2% in 2013. Developments in the economy associated with expectations of reunification are the main evidence that the comprehensive settlement would bring vast opportunities.

**Winning the Hearts of the Greek Cypriots**

To young generations of Greek Cypriots, return of land and property is no longer a strong argument in favour of reunification – if at all an argument. The perseverance of non-solution over decades – with responsibility for this jumping from one side to the other at different times – led to the development of the public notion that losing property is not as significant as sharing governance. As a result, the first generation of refugees – those who were really looking forward to returning to their properties – lived a life of waiting in vain and died in the altar of domestic flamboyant rhetoric that only served domestic party politics and the interests of an establishment that did not want to let go of any share of control. Effectively, over time, Greek Cypriot leadership implemented Rauf Denktash’s post-1974 policy that the Cypriots should wait for a generation to lapse before they endeavour to solve the Cyprus problem.

Of course the persistent non-solution of the problem did not only trap Cypriots – both Greek Cypriots and Turkish Cypriots – away from their homes and into disillusionment. It also trapped Turkey into a sustained military presence in Cyprus, which became increasingly costly not only in financial terms but also with reference to the aspirations of the country to accede to the European Union.

Developments on the ground are now such that we run the risk of a second generation of Cypriots lapsing – the 15 year olds of 1974 who still have memories and had no involvement in the tragic events of either 1963 or 1974 – other of course than suffering. This second generation of Cypriots with relatively clean hands in terms of the past, now have the historic responsibility and last opportunity to turn the situation around from a lose-lose direction to a win-win outcome.

It may not be an easy task and three developments need to be taken into consideration:
1) Loss of interest to return – in the traditional sense – by the younger generations
(as explained above)

2) Impact of the economic crisis

The recent collapse of the economy in the south under unobstructed mismanagement
(to say the least) by a sequence of governments has made some people start to think
about overall political guidance given to people so far. That the Troika obliged the Cypriot
government to rip away billions of deposits held by Cypriots at domestic banks and to
transfer wealth of €12.5 billion to bailout Greece⁴ was in essence a loss of sovereignty to
both Europe and Greece – which nobody dared to spell out in such a way.

(In this regard it is interesting to wonder whether the Cypriot commercial banks
would be allowed to gamble away billions of deposits in Greece if a Turkish Cypriot
Vice-Governor was sitting at the Board of the Central Bank, as is provided by the 1960
constitution.)

3) Discovery of hydrocarbons offshore Cyprus

The discovery of hydrocarbons offshore Cyprus has given people hope that a quick way
could be found out of current economic hardship. It also allows people to think that the
political weight of the country is increasing and that as such we can afford to sustain
non-solution. Such a perception plays smoothly into the hands of political forces that
would not like to see the Cyprus problem being resolved. The real danger here is that
all parties may end up as losers if public opinion amongst the Greek Cypriots is left to
decide that it is better to focus on the development of hydrocarbons than on a solution,
even if solution will include the return of land.

The Political Environment in the Region

Recent developments in the Eastern Mediterranean are changing the regional setting in
which the Cyprus problem had persevered. The Eastern Mediterranean as a whole is in
a state of political transition, both in terms of developments within each country, as well
as in terms of relations between neighbours. At the same time, the recent discovery of
hydrocarbons in several countries of the area and the prospect of discovery in others
creates new opportunities for economic growth and prosperity, once there is peaceful
cooperation.

It is therefore to the political leaderships and people of our neighbourhood to decide
whether this is the time to move forward to capture and develop the opportunities that
peaceful cooperation provides, through the resolution of problems of the past between
neighbours and through the enhancement of democratic processes within each country.

Failure of political leaderships to respond to the call of the times will just lead to a
deterioration of the political environment and further warfare and destruction.

⁴ €4.5 billion as a result of the haircut of Greek bonds held by Cypriot banks, plus €8 billion as a result
of the reduced value at which the portfolio of the branches of Cypriot banks in Greece was evaluated.
Time for Turkey to Lead... in Peace

With the coming into power of the Justice and Development Party (AKP), with direct recourse to the people rather than to the army for sustaining power, and given the European aspirations of the new government, a window of opportunity for the reunification of Cyprus was created in 2004 to which Prime Minister Erdogan responded positively. Unfortunately the Greek Cypriot political leadership of the time guided people towards rejecting the plan at the referenda and the opportunity was lost.

Still nine years have already lapsed since 2004, and the detrimental effects of waiting no longer concern solely the Cypriots. Turkey has also started to lose out, for new dimensions have entered the equation (as described above), while the international community is growing impatient.

There is still a lot of scepticism amongst the Greek Cypriot community, especially with reference to whether Turkey really wants lasting peace and whether it is willing to respect human rights. Addressing this scepticism will make all the difference with reference to progress towards an agreed solution. This is why Sir Graham Watson, the Leader of Alliance of Liberals and Democrats for Europe Party (ALDE Party) and one of the authors, in her capacity as leader of the Cypriot Liberal party – the United Democrats – jointly proposed in June 2012 the return of Varosha to its pre-1974 owners in association with the opening of both the Famagusta port and the Ercan airport, the opening of ports in Turkey for Cypriot vessels and the opening of accession negotiation chapters for Turkey (Watson & Antoniadou, 2012).

Such a combined move will provide financial and political benefits and incentives to both communities in Cyprus as well as to Turkey. It will drive the Turkish Cypriots out of economic isolation while at the same time returning real assets to the Greek Cypriots for reconstruction and development. It will also be a first step towards the normalisation of relations between Cyprus and Turkey and a step of smoothing relations between Turkey and the EU.

The emergence of the Eastern Mediterranean as a new source of energy provides a new incentive and opportunity for the resolution of the Cyprus problem. The reasons keeping Cyprus divided become obsolete in the face of new opportunities that have now arisen for all involved parties and which may be lost if potential partners remain focused and entangled on parameters and considerations of the past.

Energy indeed constitutes an opportunity of make or break in the Eastern Mediterranean. The emergence of the area as a new source of hydrocarbons provides countries in this turbulent region of the world with an additional incentive to engage in resolving the political problems of the past, so that they can jointly and through peaceful cooperation address the opportunities that lie ahead. The choice away from war, destruction and mistrust towards peaceful cooperation, economic growth, employment and prosperity should be obvious.
References


About the Authors

Praxoula Antoniadou Kyriacou is the President of the United Democrats, the Liberal Democrat Party of Cyprus. She is a graduate of The London School of Economics and Political Science, where she received a B.Sc. in Economics, and an M.Sc. in Monetary Economics. She is a former Minister of Energy, Commerce, Industry and Tourism. As a professional economist and manager with the Central Bank – where she served for 24 years – she gained significant expertise in macroeconomic analysis, policy formulation and management, and in statistics. She has extensive knowledge of European Union matters. She is a member of the three ladies team of economists who have co-authored the award winning trilogy of studies on “The Day After’, analysing the economic benefits to accrue to all the Cypriots, as well as to Turkey and Greece once Cyprus is reunited. In close cooperation with the Alliance of Liberals and Democrats for Europe Party, they have organized many bicomunal events in both Nicosia and Brussels to emphasize the necessity of a solution reunifying Cyprus, since reunification will not only restore human rights in Cyprus but will also lead to the normalisation of political and economic relations between neighbours in the area of the Eastern Mediterranean. She is a regular and active participant of the forum of the leaders of the Greek Cypriot and Turkish Cypriot political parties meeting at Ledra Palace, under the auspices of the Slovak Ambassador and seeking ways to the attainment of an agreed solution that will reunify Cyprus. Mrs Antoniadou Kyriacou has participated in meetings organized in Istanbul by GPoT Center, TESEV and the Friedrich Naumann Stiftung, aiming at building communication bridges between Greek and Turkish Cypriots and, especially, between Cyprus and Turkey.

Özlem Oğuz Çilsal received her Masters Degree in Economics from Eastern Mediterranean University. Currently she is a Project Monitoring Manager at the Program Management Unit funded by the EU Aid Programme for the Turkish Cypriot community and implemented by the WYG Turkiye, WYG International Ltd., SAC Commercial Ltd. Consortium. Her previous positions include: Local Expert at Rural Development Support Team, Deputy Director at Cyprus Turkish Investment Development Agency, Economist at Prime ministry Office, Economist at Ministry of Economy and Tourism, Junior consultant at KOBI Center which is supported by the Economic Development and Growth for Enterprises Project which is implemented by Bearing point and funded by USAID. She is the co-author of “The Day After” trilogy reports published by PRIO, the Norwegian Peace and Research Institute.