

ETUDES HELLENIQUES

HELLENIC STUDIES

CHYPRE: LA VOIE À SUIVRE

**CYPRUS: THE WAY
FORWARD**

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La voie à suivre pour Chypre

Aris Petasis*

Le potentiel économique de Chypre et ses perspectives politiques sont maintenant à la croisée des chemins. Le pays connaîtra la prospérité économique ou le marasme économique continu en fonction de la façon dont ses réserves énergétiques offshore seront gérées et sur la façon dont il saura forger des alliances avec ses voisins. Une Turquie en maraude, menace Chypre et a déjà envahi sa zone économique exclusive (ZEE) avec les États-Unis, qui observent un silence assourdissant face à l'agression turque et la Grande-Bretagne, en apparence un garant de l'intégrité territoriale de Chypre, mais se comportant exactement de la même manière. Il n'est donc laissé d'autre choix à Chypre que de se tourner vers ses pays voisins: la Grèce, Israël, l'Égypte, le Liban et la Jordanie et également à la Russie et l'UE pour le soutien et la condamnation de la violation flagrante par la Turquie du droit international. Des réunions de haut niveau entre Chypre et chacun de ces pays ont déjà commencé. Chypre a d'urgence besoin d'amis ayant des intérêts communs si elle veut explorer et utiliser sa richesse en mer et faire face à ses problèmes économiques majeurs.

Chypre connaît sa pire crise économique depuis l'invasion du pays il y a quelque 40 ans par l'armée turque qui, à ce jour, la tient toujours en otage par la force des armes. L'économie de Chypre est en lambeaux avec près d'un employé sur cinq sans travail ou exécutant certaines tâches subalternes et mal payées pour se tenir occupé. Des milliers de jeunes professionnels à l'avenir prometteur ont émigré à la recherche d'un futur meilleur. L'investissement s'est tari car le gouvernement a une lourde dette et ne peut pas investir dans des projets de développement; le système bancaire est cassé, discrédité et impose des frais et des taux d'intérêt prohibitifs pour effectuer des prêts, ce qui rend l'investissement interne impossible. L'investissement étranger sérieux est quasiment absent. Par conséquent, le redémarrage de l'économie chypriote ne sera pas chose facile et ne semble pas être à l'horizon. La confiance est à son

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plus bas niveau et cela nuit à toute tentative de l'amélioration de la situation. Les habitants de Chypre passent par de grandes difficultés et il ne semble pas y avoir de lumière au bout du tunnel autre que l'utilisation de ses réserves d'énergie. Par l'énergie on espère: a) réduire les coûts d'énergie paralysants (Chypre possède les factures d'électricité les plus chères de l'UE) et b) exporter le surplus d'énergie afin de constituer progressivement un fonds souverain sérieux pour les générations futures.

Les réserves d'énergie sont une question de vie ou de mort pour Chypre car elles touchent également les questions de l'indépendance et de la souveraineté. L'énergie n'est pas un élément isolé qui est séparé de l'ensemble. Dans le cas de Chypre l'énergie est étroitement liée à: a) l'occupation turque et les ambitions turques pour un contrôle total de l'île; b) la «solution» du problème de Chypre d'une manière qui rendra le gouvernement de Chypre après cette "solution" inexistant et impuissant à établir une relation avec la Russie, pays qui a historiquement soutenu Chypre à des moments difficiles car le désir des Américains et des Britanniques est de voir la Russie enfermée dans la mer Noire et aussi loin de Chypre que possible; c) les intérêts des entreprises multinationales et leur désir d'obtenir la plus grande part si possible sur les réserves énergétiques de Chypre; d) la dépendance énergétique de l'Europe envers la Russie et le désir de certains de réduire cette dépendance; e) la stratégie hautaine de la Turquie de devenir le gendarme régional sans rendre de comptes à personne; f) la puissance et le contrôle des mers de la Méditerranée orientale par la force maritime menaçante de la Turquie, compte tenu de l'importance des mers en tant que dépositaires de l'énergie; g) l'économie et la capacité de Chypre à se libérer de l'étreinte de la crise financière; et h) l'énergie comme une catapulte pour de nouvelles alliances en dehors de celle de l'ancienne puissance coloniale de la région et de son successeur.

Theodoros Kyprianou et Aris Petasis traitent conjointement dans ce numéro *d'Études helléniques/Hellenic Studies* de la question de l'approche holistique dans la prise de décisions et apportent des exemples et des expériences du domaine de la gestion, de l'économie et de la médecine pour démontrer que l'action isolée ad hoc et en dehors du cadre d'un système, échoue inévitablement, même si le hasard et la chance jouent leur rôle en faveur de la décision ad hoc. Un ensemble complet est composé de parties qui agissent ensemble de manière efficace et en harmonie, aidant le système à améliorer son rendement et son

efficacité. Les systèmes efficaces assurent que les parties travaillent en synergie et pour le plus grand bien de chaque partie et du tout. Mais les systèmes doivent être renouvelés et en tant que tels car ils ont besoin d'opérer ouvertement pour se permettre de bénéficier de l'échange d'informations avec l'environnement. L'homéostasie dynamique est au cœur des rouages d'un système, car celle-ci lui permet de s'ajuster au changement et de se renouveler sans perdre son équilibre.

Les décideurs au niveau des politiques doivent donc tenir compte de l'importance de mesurer chaque action en termes d'influence et de l'impact sur les autres parties du système. Un bon médecin sait qu'en prescrivant un médicament pour lutter contre une maladie il fait courir le risque de créer un nouveau problème compte tenu du processus de contre-indications et du fait que toutes les parties du corps humain sont interdépendantes. De la même manière les gouvernements devraient savoir que, par exemple, toute caution à l'encontre des déposants (permettant à la banque de prendre « légalement » leur argent et le convertir en fonds propres inutiles) va certainement avoir des effets néfastes sur d'autres parties de l'économie en raison de la perte de confiance. Donc, pas une seule action ne doit être évaluée indépendamment du système parce que toute action a un impact large et fondé sur le tout, comme prévu.

Les auteurs soutiennent que les approches holistiques prennent en compte la situation d'ensemble qui englobe le matériel ainsi que l'immatériel: les choses matérielles, les gens, les émotions et les fondamentaux économiques, sociaux, financiers ainsi que spirituels, etc. Les auteurs concluent que, aux fins d'une meilleure efficacité, aucune question ne doit être considérée de manière isolée et en dehors du contexte de parties interdépendantes. Tous les articles de ce numéro démontrent l'interdépendance des actions et la nécessité d'adopter une perspective plus large lors de l'analyse, même pour la plus simple des décisions, des événements ou des actions. Dans le cadre de l'approche holistique toutes les actions doivent être évaluées au regard du critère de la contribution; si elles ajoutent ou soustraient à l'ensemble. De même, et compte tenu de la fluidité de l'environnement dans lequel les gens fonctionnent, il faut se rappeler que les approches d'hier ne répondent pas nécessairement aux problèmes d'aujourd'hui; chaque nouveau problème doit être évalué de manière globale et au bon moment.

William Mallinson dans son article percutant et pertinent sur les événements d'aujourd'hui, rappelle au lecteur les dures réalités qui doivent être prises en considération par la Grèce et Chypre lors de la prise des décisions stratégiques au sujet de leur avenir. Mallinson souligne le fait que les deux pays sont des acteurs périphériques de la Méditerranée orientale. L'élite politique de ces deux pays est bien consciente de ce fait. La lucidité dans le titre de cet article, "la Grèce et Chypre, 'matière' de la géopolitique", prépare le lecteur de ce qui l'attend. Mallinson met en exergue la position selon laquelle la Grèce et Chypre n'ont jamais été à même d'agir de façon indépendante, parce que depuis des décennies ces pays ont été sous le contrôle politique et hégémonique de la Grande Bretagne, puis des Etats-Unis en tant que successeur de l'empire britannique au Moyen-Orient et en Méditerranée orientale. La Grèce et Chypre continuent à être dans la même position que celle qui était la leur après la Seconde Guerre mondiale; d'où le terme 'matière' de la géopolitique dans le titre de l'article qui est convaincant. Jouer au ballon géopolitique est dangereux pour les deux pays, ce qui les conduit à agir sous la pression exercée par les puissances hégémoniques et leur proche allié, la Turquie, en faveur de leurs propres intérêts.

Le souci obsessionnel de la présence de la Russie dans la Méditerranée orientale pour les Etats-Unis et son plus petit et plus faible allié, la Grande-Bretagne, est l'une des raisons pour lesquelles ces deux pays prennent des décisions sur des questions touchant la Grèce et Chypre qui sont conçues de manière à ne jamais leur permettre de rester proches de la Russie qui partage avec ces deux nations la même religion et, surtout, des luttes communes, particulièrement contre l'agression ottomane / turque connue comme «La question d'Orient.» La Grande-Bretagne soutient les discussions internes sur la recherche d'une solution pour Chypre car cela lui convient bien. Tant que ces négociations se poursuivent à l'infini les bases britanniques à Chypre restent sécurisées. Une solution viable peut rapprocher les deux parties chypriotes ensemble dans leur opposition à la présence de bases britanniques à Chypre. Un rapprochement entre Chypre et la Turquie n'est pas dans l'intérêt de la Grande-Bretagne non plus. Chypre s'accommode d'avoir la Turquie comme un allié de l'OTAN, qui occupe la moitié de son territoire et contrôle son destin tandis que la Grande Bretagne y maintient tranquillement ses bases.

Les Etats-Unis souhaitent voir une solution au problème de Chypre qui

anéantit la partie grecque comme un décideur et de cette façon rend les Grecs impuissants à se prononcer en faveur d'une alliance d'une certaine forme, avec la Russie. Dans ce scénario, la Russie va être rejetée à l'infini hors de Chypre et de la Méditerranée orientale. Alors en tant que pays faibles et peu sûrs, la Grèce et Chypre ne sont pas pour le moment destinés à jouer un rôle d'importance dans les événements qui se déroulent et les touchent directement. Selon la politique actuelle ces deux pays continueront d'être marginalisés et sont comme les ballons de football de ceux qui contrôlent leur destin (Les Etats-Unis, la Grande-Bretagne et la Turquie - allié de l'OTAN). Mallinson note que les Américains sont surtout préoccupés par la coopération stratégique turco-israélienne au Moyen-Orient, en particulier avec les événements en Syrie, donnant ainsi à cette question une grande priorité sur une Chypre "réunifiée" mais impuissante.

Les attitudes ne semblent pas avoir beaucoup changé en Méditerranée orientale depuis le jour où le premier Secrétaire général de l'OTAN, Lord Ismay a défini honnêtement le rôle de l'OTAN comme visant "à maintenir les Américains dans [l'Europe], maintenir les Allemands vers le bas [en Europe] et de garder les Russes en dehors [de l'Europe]..

Dans son article de fond sur les trouvailles récentes concernant les ressources énergétiques de Chypre, Solon Kasinis affirme que Chypre se trouve désormais dans une position stratégique unique qui offre de grandes promesses et de grandes perspectives économiques, mais ajoute une mise en garde selon laquelle tout dépendra de la justesse des décisions qui seront prises dans l'avenir immédiat; tout ne va pas être simple. Les inimitiés et les tensions historiques entre les pays de la Méditerranée orientale et le cadre géopolitique de la région, ajoutent aux difficultés de la coopération entre les acteurs de la région. Chypre devra faire des alliances économiques et autres si elle veut bénéficier de ses réserves d'énergie. Les résultats positifs des activités des pays voisins qui ont découvert et produisent du pétrole et du gaz naturel sont encourageants, comme ces pays sont des partenaires et alliés potentiels de Chypre dans sa quête pour rejoindre les rangs des pays producteurs d'énergie.

De manière optimiste, le gaz naturel gagne en importance dans le monde entier et devient progressivement le combustible fossile classique 'préféré'. Cela devrait se poursuivre dans les prochaines décennies, parce que le gaz naturel est un combustible efficace et propre. Ainsi, la demande pour ce type de

carburant va augmenter. Même maintenant, le gaz naturel est au deuxième rang après le pétrole comme combustible fossile utilisé. Ainsi, le potentiel du gaz naturel est là et avec le temps ce potentiel sera réalisé. La région Est de la Méditerranée a tout à gagner de ces résultats car elle devrait devenir la quatrième plus grande région de production d'hydrocarbures dans le monde (après la Russie, le Qatar et la mer du Nord).

Visant à renforcer la sécurité des approvisionnements énergétiques, ainsi que l'autosuffisance énergétique et pour protéger le rôle géostratégique du pays, Chypre a participé pour la dernière décennie à la planification systématique de son secteur de l'exploration des hydrocarbures. Dans son article, Solon Kasinis traite de géopolitique et de la voie à suivre pour la monétisation de gaz. Le succès commence à partir du moment où Chypre a réussi à attirer les compagnies pétrolières et gazières pour l'exploration. Des questions telles que la nature de l'infrastructure et les structures commerciales qui doivent être mises en place dans la poursuite de la monétisation du gaz naturel de Chypre, devraient être réglées maintenant. En outre, les risques doivent être calculés correctement.

Chypre devrait aussi aborder la question des compétences et des ressources humaines qui seront nécessaires à cette fin; du travail à cet effet est déjà en cours. Kasinis aborde également la question de la coopération bilatérale ou trilatérale dans le domaine de l'exploration du gaz naturel, entre Chypre, la Grèce et Israël; tout en soulignant l'importance d'établir des relations avec d'autres pays de la région pour améliorer la stabilité et rétablir les relations pour le bien des pays de la région. En ce qui concerne l'exportation de gaz éventuelle de Chypre, l'auteur adopte sans équivoque la position selon laquelle «... le passage du pipeline à travers la Turquie doit être absolument exclu, puisque... [Ceci] permettra... le contrôle des flux de gaz chypriotes par la Turquie.” La possibilité pour un pipeline vers la Turquie devrait être discutée comme une question géopolitique après la résolution du problème de Chypre et la libération de 40% du territoire chypriote de l'occupation turque.

L'article de George Georgiou plonge dans les questions de l'énergie et des zones économiques exclusives (ZEE) et porte à l'attention du lecteur la complexité du problème. Il note que beaucoup trop de joueurs sont actuellement impliqués dans ce problème très compliqué. Il y a un réseau complexe de pays et d'institutions, qui devraient travailler ensemble, si des

avantages pour tous les participants de la région sont à réaliser. Ce réseau comprend entre autres: les politiciens, les sociétés d'énergie, les pays ayant des intérêts différents, le précédent historique, la confiance et la méfiance, des voies d'exportation, des alliances militaires etc...

En ce qui concerne Chypre, qui occupe une place centrale dans l'essai de Georgiou, les questions pertinentes vont au-delà des quantités, la monétisation et les itinéraires d'exportation, étant donné qu'il s'agit d'un pays faible, sans structures crédibles de défense et alors qu'il y a certains acteurs majeurs dont les intérêts sont alignés avec ceux de la Turquie. Chypre, par conséquent, a un besoin urgent de faire équipe avec les autres et de nouer des alliances. Probablement la question la plus importante à laquelle Chypre devrait répondre à ce stade est de savoir si oui ou non ce pays fera équipe avec Israël (en tenant compte des intérêts communs) pour l'exploration et l'exploitation de ses réserves d'énergie. Chypre est dans une situation économique désastreuse avec une dette souveraine gonflée qui dépasse maintenant les 100% du PIB, avec un système bancaire brisé dont les problèmes ne semblent pas disparaître, avec une faible confiance dans l'économie interne et externe et – ce qui est le plus important - avec une faible position politique. L'agression turque est toujours présente et entend continuer à intimider Chypre.

Chypre a besoin d'Israël pour lui fournir un cadre de sécurité dans le cas où les deux pays s'entendent sur l'exploration conjointe de leurs ressources énergétiques et de projets communs. Sans le parapluie de défense d'Israël, il est peu probable que Chypre sera jamais en mesure d'explorer sa soi-disant grande richesse. Sans protection, les sociétés internationales de pétrole et de gaz sont peu susceptibles de braver les menaces de la Turquie. Ainsi, tous les mouvements jusqu'alors intrépides de Chypre, peuvent dérailler sans l'alliance d'Israël. L'auteur est d'avis que, sans les réserves énergétiques d'Israël, sa protection et sa participation financière, l'avenir des réserves d'énergie de Chypre semble avoir peu d'espoir. Mais, Israël est confronté à ses propres problèmes existentiels et dépend dans une large mesure du soutien et de la bonne volonté de Etats-Unis. Ce qui est très important est que les Etats-Unis sont un allié de la Turquie qui pour l'instant est à couteaux tirés avec Israël. On peut donc s'attendre à une reprise du rapprochement entre Israël et la Turquie sous la pression des Etats-Unis qui ont beaucoup à gagner avec le rétablissement de l'amitié entre ces deux pays. Cette probabilité rend Chypre

craintive, compte tenu que la Turquie utilise des menaces contre Chypre et occupe 40% de son territoire depuis 40 ans maintenant. Le travail de Georgiou constitue clairement une lecture intéressante pour toute personne concernée par la géopolitique de la région et en particulier pour ce qui est de l'avenir de la relation entre Israël et Chypre et les possibilités de coopération.

Hilal Khashan retrace l'histoire des pays de la région (Moyen-Orient / Méditerranée orientale) et insiste sur les plaies ouvertes entre ces derniers. L'auteur examine les perspectives de la coopération sur les questions énergétiques entre ces pays, envisageant que l'énergie peut être potentiellement très lucrative pour eux, qui ont tout à gagner d'une coopération. Dans son article érudit, Khashan met en avant les facteurs de base qui empêchent ces pays de travailler ensemble de manière bilatérale ou multilatérale. La chaîne de facteurs qui freinent la pleine coopération comprennent: une histoire difficile, un mauvais rapport entre voisins, des questions de psychologie et de la méfiance, des intérêts nationaux que perçoit chacun des pays de la chaîne. Tous ces facteurs jouent un rôle invalidant l'effort pour obtenir un avantage maximal pour tous les pays de la région. L'histoire notamment a un impact fort sur la capacité de ces pays à travailler ensemble. Ajouter à cela le fait qu'il s'agit de pays anciens de la Méditerranée orientale avec de longues, longues histoires et de longues luttes.

L'auteur met habilement en évidence un autre problème sérieux dans le débat sur l'exploration de l'énergie : celui de l'exploration et de l'exploitation inégale du gaz dans les ZEE des pays de la région de la Méditerranée orientale. Ce fait pèse lourdement sur la question de la coopération et handicape sérieusement les tentatives de délimiter et résoudre les problèmes en suspens et les querelles persistantes concernant les zones économiques exclusives des voisins. Ainsi, deux préoccupations constituent des obstacles dans la voie de la coopération entre les pays de la région: a) l'histoire souvent turbulente et b) les irrégularités de l'exploration et de l'exploitation de gaz qui inhibent la résolution des différends et les querelles sur la délimitation des questions de la ZEE.

Ces deux facteurs majeurs créent un cocktail toxique qui empoisonne la voie vers une coopération pleine et transparente et l'exploitation des ressources précieuses des fonds marins de la Méditerranée orientale dont sont dotés les pays de la région. Ces questions importantes que l'auteur soulève de façon si

poignante dans son article, vont dans le même sens que les excellents articles sur le même thème des ressources énergétiques dans la région de George Georgiou et Solon Kasinis. Pris ensemble, les trois articles portent au plus haut niveau la compréhension du lecteur en ce qui concerne la question des réserves de pétrole et de gaz de la Méditerranée orientale et mettent en évidence les nombreux obstacles qui doivent être surmontés avant que l'exploitation économique de ces ressources naturelles devienne possible.

La question de la confiance entre les pays et les relations qu'ils ont entre eux pèse lourdement sur les questions en débat. Malheureusement, la perte de confiance n'est pas un événement aléatoire qui sort de nulle part. La perte de confiance est souvent cumulative et augmente à travers des actions et des résolutions répétées qui sont hostiles envers l'autre partie. Ainsi, la reconstruction de la confiance n'est pas facile et prend habituellement des années d'efforts et de bonne volonté. De fait, la question de la disponibilité de toutes les parties à coopérer, que l'auteur soulève dans son article, occupe une place importante parce que, comme il le soutient, les pays ne sont pas prêts à ce stade de leur histoire d'oublier le passé et de tourner la page. Des doutes persistants quant aux intentions de l'autre partie sont évalués dans un contexte historique. Pour l'instant une véritable action collective dans la région ne semble pas être une réalité, mais les choses pourraient changer dans un avenir proche étant donné les vastes avantages économiques qui peuvent être tirés de l'action collective et d'une coopération étroite. Pour que la confiance revienne, la région doit passer par une période ininterrompue de paix et de tranquillité entre les pays. La coopération actuelle entre l'Égypte, la Grèce, Chypre et Israël est un début prometteur; cela encouragera d'autres pays à se joindre à cet objectif commun.

Aris Petasis examine l'histoire de l'économie chypriote et conclut que l'absence de mesures correctives en temps opportun au cours des années a mis cette économie au bord de la catastrophe: une dette souveraine, qui ne cesse d'augmenter, aucun investissement sérieux pour relancer l'économie et le plus important un système bancaire qui est cassé, en constante diminution et ne semble pas être en mesure de traiter avec les prêts non performants qui ne cessent d'augmenter. L'auteur fustige l'incapacité des décideurs à évaluer l'impact des décisions individuelles sur le système économique de Chypre et de prendre des mesures correctives en temps opportun. Le coût élevé de fonctionnement du

secteur public n'a pas été apprécié (ou plutôt, il a été apprécié, mais peu a été fait par crainte de perdre les électeurs-employés du secteur public). Ce coût n'a fait que croître jusqu'au taux exorbitant de 21% du PIB au moment où en Allemagne ce taux était seulement de 7%. De même, l'incapacité de Chypre à exporter a été laissée sans surveillance alors que les importations n'ont cessé d'augmenter, financées en grande partie par l'emprunt. Cela a conduit à un déficit du compte courant de quelque 8% du PIB. Même si en apparence, la situation du compte courant a présenté une amélioration, sur le fond des percées n'ont pas été faites. Simplement, les importations diminuent à cause de la diminution du pouvoir d'achat des consommateurs. Il n'y a aucun changement significatif dans la capacité du pays à exporter. Le système bancaire a continué de fonctionner librement et avec seulement des contrôles rudimentaires. En fin de compte celui-ci a été victime de décisions imprudentes par des gestionnaires et des décideurs amateurs qui n'avaient au fond qu'une connaissance et une compréhension paroissiales des choses. Ces personnes n'ont pas su percevoir à temps la réalité. La Banque centrale de Chypre a échoué lamentablement dans sa tâche d'identifier et d'analyser les situations et de prendre des mesures pour endiguer le bilan négatif, de plus en plus considérable, des grandes banques. Cet échec a permis la construction d'un système bancaire hypertrophié qui a été programmé pour s'effondrer sous son propre poids et faire tomber l'économie dans son sillage. Le cautionnement des déposants - sans précédent - n'a fait que ruiner toute confiance dans le système bancaire de Chypre et par extension dans son économie.

Plutôt que d'essayer de restaurer la confiance perdue, qui pourrait attirer de nouveaux investissements, les décideurs politiques ont eu recours à la propagande et à des actions ponctuelles telles que l'octroi de visas investisseurs à des citoyens du tiers monde, sans voir que ceci n'est pas la solution à un problème profondément enraciné. D'autres tentent toujours de revenir à des pratiques destructrices du passé telles que la vente des terres et la création de programmes qui sont auto-destructeurs par leur nature même. On entend encore le terme «investisseur» appliqué à un spéculateur foncier; on oublie que quand un morceau de terre change de main, l'acheteur "investit" et le vendeur en même temps "désinvestit." L'acheteur convertit son argent dans la terre et le vendeur convertit sa terre en argent.

Petasis met en avant la position selon laquelle Chypre a un besoin urgent de surmonter l'énorme déficit de confiance qui a englouti le pays à cause des

mauvaises décisions du passé. Sauf si la confiance revient, l'économie de Chypre est tenue de demeurer dans le bourbier pour un long, long moment. La confiance ne peut être rétablie si Chypre ne fait pas les choses de la bonne façon et honnêtement. La propagande ne va pas restaurer la confiance. Des mots vides comme si les investisseurs étrangers faisaient la queue pour investir leur argent à Chypre. Ce pays doit retourner à la planche à dessin et concevoir une économie équilibrée basée sur ses avantages relatifs tels que ceux-ci existent dans le transport maritime et le tourisme, par exemple, mais aussi dans l'exportation des produits pour lesquels Chypre dispose d'un avantage relatif en raison de son histoire. Les produits et services de qualité sont d'une grande importance pour Chypre. Les tentatives visant à «convertir Chypre en un centre financier international» sont vouées à l'échec et ramèneront le spectre du passé. Pour l'instant, du moins, Chypre n'a pas les moyens de devenir un centre financier et surtout n'a pas la crédibilité nécessaire pour être un centre financier. Même chose avec la spéculation foncière et l'achat et la vente de terres qui mathématiquement va conduire à une autre bulle immobilière dans les prochaines décennies. Chypre a besoin d'urgence d'améliorer la qualité de ses produits et services et d'apporter plus de moralité à ses processus d'affaires, parce que la confiance dépend fortement de tels comportements. La qualité de la gestion au niveau des secteurs public et privé doit s'améliorer nettement, afin que des décisions futures correctes puissent être prises. La prise de décisions ad hoc et impromptues doit céder la place à la prise de décisions systématiques qui adoptent une approche globale des questions et des problèmes. La vision à court-terme doit céder la place à une pensée qui couvre un horizon global. Chypre doit: reconnaître toutes les mauvaises décisions et les comportements égocentriques du passé, exprimer des remords sincères, restructurer son économie, créer un service civil, qui va travailler pour le bien du contribuable et non pour le bien de quelqu'un d'autre. Chypre a besoin de réviser ses objectifs pour mettre l'accent sur la qualité et la valeur de l'argent. Sur ces prémisses l'économie de Chypre a de bonnes chances de renaître, reprendre vie et se renouveler en inversant la mauvaise situation actuelle et bâtissant une économie à fort potentiel.

Dans son essai de haute qualité, Miguel Moratinos, a réussi à combiner très avantageusement ses connaissances théoriques en profondeur des affaires internationales avec ses expériences larges et multiples de sa longue et brillante

carrière à la fois comme ministre espagnol des Affaires étrangères et représentant spécial de l'UE pour le processus de paix au Moyen-Orient. Il a réussi à donner au lecteur un éclairage nouveau sur la géopolitique de la Méditerranée orientale et à mettre en avant certaines recommandations louables et des plus précieuses pour la gestion des nombreux défis auxquels cette région de la Méditerranée est aujourd'hui confrontée.

L'auteur retrace attentivement et avec beaucoup de diligence le passé, souvent ravagé par des conflits, de la région de la Méditerranée orientale en soulignant son importance à travers l'histoire. L'essai fait référence à l'impact sur la région de: a) la chute de l'Empire ottoman; b) la fin de la Seconde Guerre mondiale; c) la création de l'OTAN et de l'attribution par les États-Unis et de l'OTAN à la Turquie du rôle de gendarme régional au détriment des autres pays et, surtout, au détriment des alliés de l'OTAN, Grèce et Chypre, ce dernier pays maintenant semi-occupé par les troupes turques; d) l'impact sur la zone de la guerre froide et ses conséquences après la chute du mur de Berlin; et e) le nouvel antagonisme entre les États-Unis et la Russie qui amène dans la mêlée d'autres pays, par exemple l'UE qui risque de perdre beaucoup avec l'application des sanctions américaines sur la Russie, en raison de la crise ukrainienne.

En ce qui concerne Chypre l'auteur note que, depuis l'Antiquité, les grandes puissances de l'époque convoitaient l'île en raison de sa position géostratégique en Méditerranée orientale. Le fait que les étrangers se mêlent des affaires de Chypre est vieux comme le monde, conduisant souvent à la confrontation entre les acteurs qui souhaitaient d'exercer leur hégémonie dans la région, avec l'île comme proie. La nouvelle géopolitique de notre époque menace d'engloutir la Méditerranée orientale dans de nouvelles aventures qui empêcheraient les pays de la région d'exploiter leurs ressources et de coopérer à l'amiable pour l'utilité commune. La nouvelle et tout à fait inutile confrontation Est-Ouest est à l'origine des problèmes de ces pays, dont la plupart ne souhaitent pas être empêtrés dans les bagarres avec d'autres États. Cela coûte beaucoup à l'Europe, à la Russie et à la région. Les défis de la région, tels que les nouveaux conflits arabo-musulmans, israélo-arabes etc. ont un impact lourd sur celle-ci. Les questions économiques se sont ajoutées à cette crainte. Le plus important pour Chypre, ce sont les nouvelles découvertes de ressources énergétiques dans la région, qui créent de nouvelles tensions avec la Turquie dont l'action est

menaçante. Pour l'auteur, il est clair que les différends sur l'énergie devraient être résolus selon le droit de la mer et rien d'autre. Le droit international doit prévaloir.

Miguel Moratinos fait référence au problème de Chypre et à la semi-occupation de ce pays ainsi qu'au problème israélo-palestinien qui pèsent lourdement sur la paix dans la région. Il fait très judicieusement le point sur la résolution de ces problèmes qui a été laissée aux grandes puissances et particulièrement aux États-Unis. Rien n'est sorti de cette approche, prouvant les limites des pouvoirs de coercition et de la diplomatie des superpuissances. Ainsi, une nouvelle stratégie est nécessaire. L'auteur fait appel à l'Union européenne, à peser et à mettre à profit ses propres capacités et son grand potentiel pour fournir des solutions équitables aux problèmes de longue date. Mais, l'UE devrait d'abord comprendre les dimensions des problèmes qui affligent la Méditerranée orientale, tout en donnant la priorité à la résolution de ces problèmes. Le problème de Chypre doit cesser d'être manipulé par les anciennes puissances coloniales ou leurs successeurs. L'auteur ne parvient pas à comprendre pourquoi la Grande-Bretagne devrait occuper 5% de Chypre, un héritage datant des années d'avant 1960 ou pourquoi les solutions doivent suivre les directives de l'OTAN. L'UE devrait établir et mettre en œuvre sa propre défense et des arrangements garantissant la sécurité de la zone, la paix et la stabilité dans la région. La reconnaissance de deux États, Israël et la Palestine sera décisive dans l'élaboration et l'établissement du processus de la coopération régionale et l'intégration sur le modèle de l'UE.

La création d'une Haute Autorité de l'énergie est au cœur de la pensée de Moratinos, en ce qui concerne la gestion des ressources énergétiques de la région. C'est ce qui est arrivé avec succès en 1951 pour le charbon et l'acier et a réuni l'Allemagne et la France. L'avenir de la relation russo-américaine affectera inévitablement la région. L'auteur suggère judicieusement que les pays de la région doivent agir en toute indépendance des grandes puissances, en examinant leur propre potentiel géostratégique sur le mérite et divorcer des grandes puissances. Cela permettra de libérer les pays de la région de leur statut de subalternes, de sous-traitants ou de mandataires des grandes puissances.

Stephanos Constantinides retrace méthodiquement les nombreux développements qui sont en train de prendre forme dans la Méditerranée

orientale à la suite des changements radicaux qui ont eu lieu dans la région au cours des dernières années. Il met en lumière les récents événements tumultueux dans la région et plus particulièrement l'échec du «Printemps Arabe» qui a contribué à démêler le plan prétentieux de la Turquie à devenir le leader régional, néo-ottoman. Les développements sur le front iranien, l'impasse israélo-palestinienne, l'autonomie kurde, l'effusion de sang en cours en Irak et en Syrie, les alliances changeantes dans la région et la présence des grandes puissances politiques ont la place qui leur revient dans l'analyse de Stephanos Constantinides.

Il relie habilement tous ces événements à Chypre et les dangers auxquels ce pays est confronté, mais aussi les opportunités que ces évolutions peuvent lui créer dans sa tentative d'exploiter ses ressources énergétiques et de se libérer du joug de l'occupation turque. Les effets néfastes de ces événements sur la Turquie sont finement résumés et donnent un peu d'espoir à Chypre en ce qui concerne sa capacité à repousser l'agression turque, qui a vu la marine de la Turquie envahir sa zone économique exclusive (ZEE), et mettre un terme aux plans turcs de saborder ses efforts pour exploiter ses ressources naturelles.

L'ambition de la Turquie pour l'hégémonie dans la région et pour devenir le leader des populations musulmanes sunnites a subi un lourd coup à la suite de ces stratégies mal conçues, qui ont provoqué une confrontation avec deux puissances dans la région: l'Égypte et l'Arabie Saoudite. Succinctement l'auteur fait valoir que l'Égypte (ou «mère du monde» pour les Égyptiens) a mis fin aux rêves turcs à l'hégémonie. La rupture de la Turquie avec Israël a ajouté aux malheurs turcs dans la région, tout en offrant à Chypre et la Grèce une chance pour une alliance avec Israël au profit des trois pays, et qui peut fournir à la force aérienne israélienne l'espace aérien nécessaire chypriote et grec. La politique affichée de la Turquie de «zéro problème» avec ses voisins est devenue une plaisanterie de mauvais goût étant donné que ce pays est désormais en désaccord avec presque tous ses voisins. Le dégel progressif des relations entre l'Occident et l'Iran n'est pas non plus une évolution en faveur de la Turquie. La Turquie est aujourd'hui confrontée à trois problèmes graves: a) les Kurdes et leur lutte dont l'objectif est l'autonomie ou l'indépendance qui a maintenant plus de chances de se réaliser; b) la Syrie et la tentative chaotique de la Turquie à renverser Assad, son ancien allié, par voie d'alliance avec des groupes islamistes d'insurgés; et c) l'économie turque fragile, qui souffre de «déficits

jumeaux», de déficits budgétaires et de comptes courants négatifs.

Compte tenu des changements géostratégiques actuels dans la région, Chypre et la Grèce sont deux pays appelés à redéfinir leurs alliances en accordant plus d'importance au Moyen-Orient qu'ils ont négligé pendant de nombreuses années. Bien que l'Occident ne joue plus le rôle central d'antan, l'Amérique est toujours au centre des événements et continue d'être un ardent défenseur de la Turquie. La Grèce et Chypre doivent maintenant se tourner d'urgence vers la Russie comme leur ami traditionnel, l'Égypte et Israël, tout en sachant que les relations tendues israélo-turques seront inévitablement réparées un jour. La question de l'énergie jouera un rôle central dans la formation de nouvelles alliances et de relations en Méditerranée orientale et il faudrait se positionner pour cela à temps.

The Way Forward for Cyprus

Aris Petasis*

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.

Holistic management of critically ill economies and other human systems

Aris Petasis*

Theodoros Kyprianou**

RÉSUMÉ

Les questions économiques, médicales, sociales et autres doivent être traitées de manière globale et dans une perspective de système. Des approches fragmentaires et des interventions “standard” ad hoc fonctionnent rarement, parce qu’elles ne tiennent pas compte des principes fondamentaux tels que: l’interdépendance (entre les parties), les structures (pour renforcer la cohésion des parties), les synergies (à multiplier la valeur de chaque partie), l’homéostasie dynamique (nécessité pour le changement tout en maintenant l’équilibre), l’entropie (la maladie de systèmes fermés), la considération des différences individuelles (pas de «one size fits all” solutions), la disproportion (la même action sous deux réglages différents ne donnera pas le même résultat), le besoin de coordination des parties afin de rendre le système efficace et la futilité de cibler l’optimalité, étant donné que ce concept ne figure pas dans les systèmes sociaux, principalement en raison des limitations sur la capacité des gens à diagnostiquer et prévoir correctement (par exemple, le problème économique de Chypre est-il financier ou problème de perte de confiance?). Les approches holistiques considèrent l’image plus large; englober le tangible et l’intangible, l’économique et le social, l’aspect financier ainsi que les fondamentaux spirituels. Regarder une question de façon isolée, c’est à peine la bonne façon de s’y prendre pour résoudre un problème.

ABSTRACT

Economic, medical, social and other issues need to be dealt with holistically and from a system perspective. Piecemeal approaches and ad hoc “standard” interventions seldom work because these ignore fundamental principles such as: interdependence (between parts), structures (to enhance the cohesion of parts), synergies (to multiply the value of each part), dynamic homeostasis (need for change whilst maintaining balance,) entropy (the ailment of

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closed systems), individual differences (no to “one size fits all” solutions), disproportionality (the same action under two different settings will not yield the same result), need for coordination of parts to make the system efficient and the futility of targeting optimality considering that this concept does not exist in social systems mostly because of human limitations on the ability of people to diagnose and forecast correctly (e.g. is the Cyprus economic problem financial or one of lost trust?) Holistic approaches consider the wider picture; encompass the tangible and the intangible, the economic and the social, financial as well as spiritual fundamentals. Looking at one issue in isolation is hardly the correct way to go about solving a problem.

We refer to system as, “*An organized, purposeful structure that consists of interrelated and interdependent elements (components, entities, factors, members, parts etc.). These elements continually influence one another (directly or indirectly) to maintain their activity and the existence of the system, in order to achieve the goal of the system*”¹. In our case, the goal is perceived as maintaining sustainably the welfare of the citizen and person; the system being a civilized society. This paper attempts to explain the importance of holistic management to critical issues and problems using the following ten headings:

- 1. Lessons from the Health sciences*
- 2. Lessons from History*
- 3. Open vs closed and simple vs complex systems*
- 4. Systems’ entropy and dynamic homeostasis*
- 5. People and systems*
- 6. Holistic view of the economy as a complex system*
- 7. Pathophysiology of a critically ill economy as malfunctioning system*
- 8. The pitfalls of the current management of economic dysfunction*
- 9. Systems’ management evolution: Time for a new “therapeutic” paradigm for critically ill economies?*
- 10. Concluding remarks*

1. Lessons from the Health Sciences

Hippocrates was amongst the first to recognize the complexity of the human body and to stress the inter-connectivity between each and every part (organ / body system, “the 4 humours” in his theory²) of this complex super-system. Much water has flowed under the bridge since Hippocrates’ time and an immense amount of work was generated on the subject. The impact of failure of one or more parts of the body (from cellular to organ level) on health and the overall functioning of a person, as well as the impact of a dysfunctional person on the community’s health and wellbeing has been studied and documented in-depth in Medicine and Sociology respectively. A great deal of effort was put in examining the interrelationship between physical, emotional and the psychic /spiritual health of humans through studies in Psychology (experimental Psychology in particular) and Religion.

Factors in the environment, amongst others the social and financial standing of the individual, have also been identified as impacting on human health even though these factors were underestimated or neglected for a large part of the history of Science; these factors were seen then as unconnected to medicine. Conventional wisdom now supports that we cannot understand health simply by looking at blood markers and images of the body, but rather by benchmarking human behavior and perceived satisfaction in life. Reversely, human behavior and more particularly the behaviour that is the outcome of the “evil twins” of *greed* and *fear* influence human micro- and macro- environments which in turn impact on human health.

Critical illness is perceived as a health status where one (or more) organic system(s) / organ(s) / physiological mechanism(s) are so disordered that seize to perform adequately to maintain vital body functions (consciousness, airway patency, breathing and circulation), to the extent of imminent death. We shall see in a while the ultimate of disorganization in systems theory and the uncontrollable increase in entropy in thermodynamics.

Critical illness can result from either external insult(s) or internal pathological process(es) with or without an underlying chronic illness (acute or chronic illness exacerbation). External insults can be classified broadly from a pathophysiological point of view as: a) acutely or chronically acting poisons and traumas, b) infections (endemic or transferred through the process of globalization; more or less contagious), c) acute or chronic unsustainable

deviations from “normality” in one or more environmental system(s) (i.e. serious temperature dysregulation), d) lack of essential food and water supplies (hunger and thirst). Similarly, internal chronic diseases can be classified as: a) immune and cancer (parts of the system attack and tend to destroy the system itself), b) degeneration and senescence (prevalence of entropy forces). To cause maximum damage such insult(s) / process(es) need to be powerful enough to overcome the existing “defense” mechanisms (usually multifaceted and multilevel) and/or saturate the existing balancing (bio-feedback) / buffer systems (usually overlapping and cross-reacting).

We examine critical illness in this essay, as a model of system disorganization that has remarkable similarities with failing economies and may dictate important lessons in the management of such adverse situations that endanger lives and human / personal / societal welfare! Evidence based³ abstract description of the aforesaid (concepts / dictums / axioms of critical illness pathophysiology) are given where necessary in the paragraphs that follow so as to illustrate these similarities.

The gist of the matter is that the medical and scientific community now realise that unless the (critically) ill patient (human being) is viewed as a whole (considering the interrelationships between body organs / systems) thus going beyond blood and tissues indices, the patient cannot be adequately studied, protected and restored to health. This approach applies practically to all dysfunctions that afflict human organisations (social, economic, etc.). Scientific, historical and factual evidence will be presented below in support of the above.

2. Lessons from History

Alexander the Great was one of the first to recognize the complexity of the military and political systems. He was quick to identify the interrelationship between internal and external forces that threatened to disturb the balance and vitality of his kingdom. Though he himself did not build the core/basic military and political system of the Greeks, it was Alexander that fashioned masterfully what he found from his father Philip and the great military strategist Parmenion into a formidable structure that would outlive him for centuries and which would leave a legacy to this day. Alexander and his companions were all educated by the great Greek philosopher from Stagira, Aristotle in the great

school at Mieza (near the modern Greek city of Naousa). There they learned all about interrelationships and interdependence from the great master Aristotle. By understanding the broader properties of the system he inherited, Alexander managed to build the world's most integrated and formidable force of his time. This organization was destined to liberate from tyranny fellow Greeks in the East and finally pass on Hellenistic thought to countless countries stretching as far as Bactria (in modern Punjab, India). The Greco-Bactrian Empire (set up mostly by Athenians) lasted for over 200 years after his death.

Alexander's understanding of systems, organizational working patterns and interrelate parts went beyond common comprehension. The fact that he recruited Callisthenes (Aristotle's nephew) to record history and to study and categorize the flora of the nations that were to fall under the Greeks speaks volumes about Alexander's understanding of what is now known as "holistic" approach to his task. The great King of Macedon understood full well the human side of the military. He thus built a political machine to help bond everyone together through camaraderie in the armed forces that was central to his approach. He extended the hand of friendship to the peoples that came under his empire and refused to view the vanquished as conquered people; rather, he saw them as new co-patriots. Because of his masterful management of the Hellenistic organization, Alexander managed to rule without a single revolution in the areas under Greek command. He understood clearly and at an early stage the enormous importance of a unifying language and thus quickly introduced the koine (Hellenistic) Greek for easier understanding and communication through the Greek language; seeing that many found the rigor of ancient Greek too much to handle. Little did Alexander know at the time that the New Testament (the book with the highest circulation in world history) would be written in Greek and that the great books of Orthodoxy and the Eastern Roman empire would be written in the language he helped fashion.

Alexander's concern went beyond the army, the cavalry, the archers and the navy because he wished to set up a system that would go beyond the military side of his task and that would be impregnable in the long-run because it would blend together successfully a multitude of properties and functions: the armed forces, psychology, religion, spirituality, the sciences, culture, language and so on. He understood well things that were beyond the conventional wisdom of his time and had a good grasp of the intricacies entailed by complex systems.

Alexander was genius par excellence. This explains why he went beyond the need to set up just a military machine. His gifted personality, courage and brain enabled him to build a system that was to last for 300 years after his death and, most importantly, that would act as model to this day for business, politics, linguistics, strategy and leadership⁴.

Partha Bose characterizes Alexander as, “*Arguably the greatest military strategist, tactician, and ruler in history, Alexander’s achievements have influenced many military, political and business leaders.*”⁵ Bose goes on to say that Alexander’s system of governance influenced Roman leaders and emperors (Pompey, Julius Caesar), Carthaginians, Indians, the Medici of Italy, the Habsburgs of Austria and a pleiad of leaders spanning history. Alexander had a mission to build a truly magnificent system that would help him achieve his dream of Hellenisation; passing on to others the Greek culture, ideas and traditions. With sense of history he carried with him a copy of Homer’s Iliad to guide him in this dream. Alexander claimed the hero of the Iliad, Achilles, as his direct ancestor.

Alexander took a holistic approach to his task and this helped him set the foundations of the system that would influence the world for 2,500 years and certainly for thousands of years to come. Just like his father Alexander’s vista transcended Macedonia, Thrace, Epirus (his mother’s birth-place) and the rest of the lands of the Greeks. He had a truly global understanding when most people of his generation took a parochial approach. He could see the then known world as a unified whole and himself and the Greeks as the champions of unity for nations that were to come under his influence. He had the capacity to harness the strengths of diversified peoples for broader good. He saw countries and people as parts of a wide system and an advanced world order that he envisioned. He saw the resources of countries under his influence as tangibles in his system and the varying religions, customs, beliefs, philosophies as soft intangibles. He managed all these resources masterfully. In pursuit of his objective he did not shy away from foreigners or people that were alien to the Greek culture. As such he encouraged his officers to intermarry and in fact promoted non-Greeks to officer rank (much to the consternation of some of the Greek officers)! He himself was married to a non-Greek (Tajik /Uzbek) that gave birth to their son Alexander.

3. Open vs Closed and Simple vs Complex Systems

Open VS Closed Systems:

In thermodynamics, isolated systems cannot exchange energy or matter with their environment. Closed systems are able to exchange with their environment energy (heat and work) but not matter. An open system allows transfer of energy as well as matter between it and its surroundings⁶. Analogous systems' approach considers the human being (or an organization / a society), as a set of functions which receive input within the internal and from the external environment, process this and then produce an output (i.e. action / status change) that can conversely influence the internal / external environment⁷. The closed-system model tends to focus on internal events when explaining system's actions and behavior, while open-system models focus on events occurring externally (and internally as well) that influence changes within the system. In fact, the human body and psyche is by definition an open system exchanging energy and matter with the environment. Students are dismayed when they first hear that we humans are in fact completely "recycled" in every aspect of our being!

In the course of a critical illness, an organism / organization fails to respond adequately to an unusually abrupt change in the settings of the internal and / or the external environment; its buffering systems become overwhelmed by the force and magnitude of the change, frequently undermined by pre-existing, internal (usually) chronic dysfunctions. Typically, restoring the internal equilibrium of an ill system to a different but viable and stable state (but not necessarily back to "normal") is of paramount importance if the system is to be enabled to ultimately interact successfully and beneficially with the external environment.

Modern-world economic systems that are no more "isolated" or "closed" than the example from medicine above could benefit from medical theory and practice in better understanding the system dynamics of a "critically ill" economic system (or other societal structure for that matter). In this way society's efforts to restore the system to health would be better placed to design and apply effective remedies and develop monitoring systems and markers of progress.

Defining the Boundaries of an Open Economic System

Open economic systems communicate with the outside world and as such their boundaries are difficult to define. Open economic systems communicate with practically the whole world, compete in the open market, share innovative ideas with anyone and are willing to share with others ideas and plans. Technology has no boundaries just as innovation does not. In fact it is impossible to define the boundaries of open systems. As such, economies can benefit from the boundless relationships and exchanges they can have but could also be destroyed by the relentless competition coming from a boundless environment. Systems need to be well tuned, with as few as possible hindrances to productivity and effectiveness so as to allow such systems to compete. No one could have imagined 20 years back that imported fruit and vegetables from countries with a few weeks of sunshine a year would be inundating a traditionally agricultural country such as Cyprus which enjoys almost year-long sunshine. Globalization brings both opportunities and threats to countries.

Simple VS Complex Systems

Not all systems carry the same complexity. And, systems with a large number of component parts are not necessarily complex. Most complex systems have the capacity to adapt, learn and rejuvenate. Adaptive systems are capable of: a) receiving feedback b) evaluation and c) acting on information to help the system adapt and survive. Organizations are typically adaptive in nature though not all manage to adapt correctly or timely; this explains why the average life of a business organization is short (e.g. 30 years).

Thus, on the one end of the spectrum we see very complex, adaptive and intricate systems and on the other simple and uncomplicated systems which have the capacity to adapt. The human body is naturally an open, very complex and adaptive system as mentioned earlier, but can this be said of an economy or a business enterprise? Some economies like those of the USA, China and Germany are large beyond imagination and those of small and tiny countries and islands are puny and inconsequential. It's one thing dealing with an economy that encompasses military industrial complexes, services, technology, health industries and practically every other industry imaginable and dealing with an economy that basically relies on tourism and a set of other simple services without an industrial base to talk of and without a complex

international transport system. To provide an example: The United States is a complex \$15 trillion economy and Cyprus is a meager 15.5 billion economy (one is thousand times smaller than the other).

One would surmise that smaller and less complex economies are by their very nature easier to manage than complex ones. Yet, we see today that there are no quick fixes even for small economies in trouble such as those of Greece and Cyprus. In the current economic crisis we also see large countries, such as Italy, being afflicted with similar ailments such as those of small countries. We see colossal economies such that of Japan languishing in recession for the past 15 - 20 years but we also see smaller economies such as that of Greece also languishing in a much worse recession which has taken a heavy toll on people in the last 7 years and with no end in sight. The same holds at the level of the business enterprise where we see gigantic corporations like Apple (and Google and Exxon and so on) with capitalization approaching \$100bil (\$77bil on last search) or 7 times the GDP of Cyprus. We see large businesses, e.g., General Motors suffering repeated malaise just as we see small shops in Cyprus shutting down on account of the recession.

System failure can hit small and large, complex and simple structures, old and young enterprises. Behind most of these failures lies bad management (usually accompanied by *greed* and its companion, *fear*!). Real estate bubbles, stock exchange bubbles and financial institution failures usually precede the arrival of hard-hitting recessions. The collapse of Lehmann Brothers in 2008 lit the fuse of the global financial crisis that followed and the loss of people's confidence and trust in financial institutions. This started a chain reaction on housing loans (confirming Marx's dictum that housing and land is likely to bring the capitalist system down!), non-performing loans and so on. Behind each of the above failures lies bad management and speculation. Behind bad management usually lie incompetence, greed, individualism and human frailty that culminate in fear of what the future will bring.

Some system parts are large and complicated to the point of forming large sub-systems in their own right. As the number of sub-systems increases our difficulty in understanding the overall system also increases. In order to mitigate system complexity, managers often break the entity into smaller sub-systems and even into sub-sub-systems. This helps somehow reduce complexity that is often associated with large size (Exxon vs a local shoe factory in Lebanon). Segregated

systems, however, need much coordination so that these can work in unison for the common goal of the overall enterprise and the economy.

The demands of sub-systems usually differ and may even be contradictory. For example, in recessions the Ministry of Finance typically responds by putting the brakes on expenditure. Though this is meant to help at the end it worsens the situation as business activity begins to drop. On the other side of the spectrum, the Ministry of Works keeps asking for money, with a view to rejuvenating the economy, but which the Ministry of Finance refuses to give. This phenomenon of bifurcation of interests causes problems and frictions that need to be managed. The way this problem (spending or not spending) is dealt with, could make the difference between early or late exit from a recession and how fast a critically ill economy is restored to health.

4. Systems' Entropy and Dynamic Homeostasis

As seen earlier through examples from history, economics and physiology, human beings and human systems tend to die as internal equilibrium tends to imbalances and eventually to non-reversible deviations from normality! In the case of human body, death constitutes an inevitable, yet hardly acceptable, reality in the modern society despite the great achievements of medicine. In the case of an economic system however, “death” does not come easily if the system can manage to reinvent itself and be rejuvenated by adapting to the challenges of the society it serves; thus, adaptability to new external conditions and societal needs is central to survival. But, this requires wise and visionary leadership that has the ability to take into account the overall good rather than its own narrow selfish interests.

Entropy. The evolution and transformation of economic systems will be discussed at the end of this essay. Here we shall discuss how human nature itself and micro / macro environmental changes can create the circumstances under which a critical illness of a system may occur. Equally, we will discuss how dynamic homeostasis mechanisms could be reinforced in order to alleviate “poisonous” effects and unnecessary human suffering. Entropy brings disorder and randomness (typical characteristic of closed systems; even if open systems run a similar danger). Entropy renders the system inefficient and continued entropy incapacitates or even kills the system.

Systems employ *feedback* as a control and improvement mechanism. Feedback improves the stability of the system and creates the platform for self-improvement. Feedback mechanisms exercise influence on the system and protect it from failure and disaster. Feedback mechanisms help to sustain equilibrium through self-regulation. *Homeostatic* mechanisms recognize the value of the self-regulation process and employ this to good effect. Homeostatic control mechanisms typically provide negative feedback to help bring the system back to its preferred state by controlling those variables that go out of line. The thermostat for instance, tells the air conditioning unit that the required/ideal temperature has been exceeded and asks it to tone down. Thus, in this case the output (temperature) of a sensor affects the regulatory center (air conditioning unit) and instructs it to reduce activity so as to bring back the equilibrium. Positive feedback mechanisms work in reverse to negative systems. In the former, systems output enhances the activity of the stimulus rather than toning it down, e.g., increased sweating triggers off the body's cooling mechanisms to provide equilibrium.

Dynamic homeostasis: In the view of the authors, dynamic homeostasis is perhaps the most potent characteristic of effective systems as it allows needed changes to happen whilst the system maintains relative stability. Dynamic homeostasis is analogous to an airplane moving at great speeds without the passengers noticing the continuous shift of position the airplane goes through. In fact, passengers get the feel that the airplane in flight is in a static position. Keeping a system in equilibrium whilst changes (and rejuvenation) go on is not an easy task particularly as regards complex systems. Change usually entails some turbulence. A good example of how equilibrium was lost in the mist of change is Russia just after perestroika that brought in tumultuous changes to a system that was relatively stable for about 70 years. With the break-up of the Soviet Union the Russian economy went into a spin and chaos followed accompanied by all the horrors of recession on the suffering Russian people. It took decades before the Russian economy could reach a state of equilibrium. This has not happened in the case of China as economic change is coming gradually and in a controlled manner.

5. People and Systems

People are an integral part of economic and business systems. Get the people side wrong and you end up with a malfunctioning system. Here again the way the people factor operates varies from country to country, company to company and from culture to culture, rendering solutions and “treatments”, highly individualized. In 1981 Ouchi⁸ put forward the idea that the secret to Japanese success (Japan was a success story at the time) lies in the way the people factor is handled. Japan, he proposed, owes its success to its people management rather than to technology. He wrote, *“This is a managing style that focuses on a strong company philosophy, a distinct corporate culture, long-range staff development, and consensus decision-making.”* He stressed that commitment to the human factor ultimately leads to increased job commitment, lower turnover and, most importantly, higher productivity. Participation in most stages of decision-making is central to the Japanese system. Thus, communication and exchange of information at a level probably unknown to many companies outside Japan is absolutely central to the management function. The Japanese system assumes that as people are integral to organization they have to be respected and their contribution acknowledged. Ideas should not be sourced from management alone; the system needs to encourage wider employee involvement and contribution.

The Japanese system requires employees to be well-trained so as to enhance their level of competence which in turn allows them to participate meaningfully in the management of company affairs. Ouchi coined the term *“Theory Z”* to express the system under which the Japanese work and in which people play a central role and where emphasis is placed on knowledge, training and organizational practices that render the employee valuable to many (as opposed to one or few) departments and many functions in the organization. Job stability and tenure are also central to this approach. Organizations are expected to provide employees with job security and in turn employees are expected to give their loyalty and commitment to the company. It is assumed that stability of tenure, experience of the full range of business activities and knowledge of the organization prepares employees well for higher managerial roles. The Japanese system contrasts in many ways that of western countries where emphasize on specialization takes precedence to more general skills and where a reasonable percentage of labor turnover is desired to allow staff renewal (e.g.

2-3% labour turnover). The Japanese experience demonstrates that though each part in the system adds its own intrinsic value it is imperative for management to isolate that part or parts that would require special attention considering their overwhelming value to the system.

Just as in human pathophysiology any unnecessary wastage of physiological reserves can be detrimental, in an economy wastage of human talent can be damaging to sustainability and economic growth. Cyprus offers a good example of wasted talent. The Island prides itself for having one of the highest densities of university graduates in the world (some with education from highly respected institutions). Yet Cyprus failed pitifully to exploit the potential of this talent. The culture of the place has been a very negative influence on people that are motivated to work and are achievement oriented. The dream of many parents over the last 40 years has been to see their children enter the civil service bureaucracy where reward for superior performance has never been the hallmark of the service. There is ample evidence of gifted people wilting away in an overstaffed and overpaid civil service or its near-equivalent the now discredited and failed banking sector of Cyprus. When talent of immense potential is directed to the civil service private enterprise is starved of this talent. Consequently then the skills balance changes against industry and commerce. Now add to the above equation high salaries to the public sector (result of strong unions) and low productivity and you get the perfect recipe for economic catastrophe and societal decay. Now add low value for money services and poor customer care from the public sector and you create an economic time-bomb. As human activity is interconnected what happens in the public sector is automatically reflected in the private sector that is forced to bear the cost of maintaining an oversized and inefficient operation. These costs inevitably raise the price of goods and services that Cyprus produces making exports uncompetitive. This partly explains why at the start of the current recession the value of Cyprus' exports fell short of the value of imports (funded by extended loans and high salaries) to the tune of 8% of GDP!

6. Holistic View of the Economy as a Complex System

The economy as an integrated system / whole attracted the attention of thinkers from antiquity though the systematic and "scientific" study of the economy as a unified whole is thought to have started some 500 years back. As

a subject of study holism (from the Greek words “*holos /όλος*”), or the idea that the whole is made up of component parts that need to work in unison if they are to be efficient and to avoid ruin gained prominence relatively recently (even though holism was well known in ancient times). The Oxford dictionary defines holism as, “*The theory that parts of a whole are in intimate interconnection, such that they cannot exist independently of the whole, or cannot be understood without reference to the whole, which is thus regarded as greater than the sum of its parts ... the opposite of atomism*”. Within a medical context the Oxford dictionary defines holism as, “*The treating of the whole person, taking into account mental and social factors, rather than just the symptoms of a disease*”. Parts influence each other within the context of an integrated whole. As such, the value of each component part when working inside the system is much greater than the cumulative value of each part when outside the system. In fact, specialised /dedicated parts have little or no value outside the system.

The Cartesian way of understanding systems has been to break the whole into its component parts and to study each part rationally and independently. This meant that the system/whole needed to be studied through its individual component parts and not through its unified properties. Though this approach might work well in some cases (in the sciences probably) this logic has little or no meaning within the social sciences. Simply, by: a) decomposing the system into parts, then b) gaining an understanding of the properties of each part and then c) putting these parts back into a whole does not guarantee a total understanding of the system and its workings. We need to examine the system and its workings as a unified whole. It is interesting to note that, the involvement of humans in the workings of systems also carries with it the risk of causing the system to generate unwanted consequences considering that human behaviour is not always rational.

For better results, the whole needs to be viewed as the master that unifies rationally and efficiently its component parts. Clearly, the whole cannot be understood adequately in terms of the properties of each component part. The function of the heart, as part of the human body, cannot be understood if the heart is merely viewed as a muscle/”machine” with defined properties and defined functions. The heart’s function gains meaning when seen as a working part of the human body and as a contributor to the workings of the other parts of the body which in the end keep the body functioning and healthy.

Reductionism, or the processes of decomposition of the whole into parts, cannot explain the whole because the whole tends to become more complex than the totality of the complexities of each part working within the system.

By accepting that prices rise as demand increases whilst supply remains constant, we cannot fully understand how the economic system functions. Supply and demand do not operate in a vacuum and outside the broader economic framework. To understand the economy we need to go beyond supply and demand. We need to understand concepts such as: inflation, fiscal and monetary policies, price elasticity, factors of production, government policies, consumer behaviour, unemployment (and why sometimes we need to take measures to alleviate the suffering of the unemployed); economic growth, social welfare, savings and host of other issues. Thus, we need to understand both the parts as well as the unified whole of the economy. Touch one part of the economic system and you trigger a whole process, sometimes with unwanted consequences.

Similarly we cannot understand how a business enterprise works by simply understanding independently how marketing and pricing work. To understand the business organisation we need to understand, amongst others, how the following work within the context of the organisation: employees, finance and accounting systems, storing and purchasing, logistics, raw materials, human behaviour, consumer habits, marketing and sales, management systems, technology, equipment and productivity which together with a host of other parts make the corporate system work healthily and productively. One has also to understand how corporate and economic systems are created in the first place and how reversible and irreversible disease sets in; and, how ailing systems can be restored to sustainable health following a thoughtful, evidence-based and individualized (personalized) treatment plan instead of a one-size-fits-all procrustean approach which can leave behind only societal handicaps and human despair.

The Economy as a System

The ancient Greek philosopher, historian and military strategist, Xenophon is credited with making the first attempt at helping us understand how the economy works as a system by concentrating on the workings of home economics in his seminal work, "The Oeconomicus" which was probably written

in the early 360s BC⁹. The Latin “oeconomia” comes from the Greek word “οικονομία” (οίκος = house / dwelling + νόμος / management) (see Online etymology dictionary). Much later others attempted to explain more systematically and scientifically how the economic system works. Amongst the first to write about “scientific economy”, was the French politician and Minister of Finance Jean-Baptiste Colbert (1619-1683), who attempted to introduce order in the workings of the economy and government. He approached his subject through systematic study and analysis of the complexities of the economic system and how the bureaucracy and economy function. Probably one of the most universally acknowledged economist and philosopher that tried to explain the workings of the economy and the interrelationships that lie behind the working of the true economy was Adam Smith¹⁰. Smith wrote on nearly all issues surrounding the economic system including but not limited to: division of labour, wages and labour, pricing and commodities, interest rates and stock prices (including stock of money), accumulation of capital, political economy and so on.

Political Economy as a System

Of the classical economists, and one who was influenced by Adam Smith, the British David Ricardo (1772-1823)¹¹ proved to be one of the most influential in explaining in the early 19th century the “science” of economics and how complex functions come to form a viable economic system. Ricardo’s contemporary, Jean-Baptiste Say’s (1767-1832) published in 1803 his famous treatise on political economy. This was later published as “A Treatise on Political Economy”¹². Alexander Hamilton, the first secretary of the economy of the USA also attempted to explain the workings of the economic system and in so doing he relied on the work of many of his predecessors¹³. A little later Max Weber (1826-1920) addressed the workings of bureaucratic systems¹⁴. Max Weber, along with Karl Marks and Emil Durkheim are considered to be probably the architects of modern social science (they helped sociology take its rightful place by helping us understand the economy as a function of the overall social system).

Corporate Management System

In the area of corporate management Frederick Taylor (1855-1915) led the development of “scientific management.” In his seminal work, “Scientific

Management”,¹⁵ he attempted to use measurement and observation (both scientific processes) to define the best way of doing things so that the overall system can work efficiently and beneficially. Taylor saw clearly the interrelationship between events and functions. His near-contemporary engineer Henri Fayol (1841-1925) was one of the first to put forward fundamental principles of the art of managing the corporate system¹⁶. He expanded on how best to organize a business entity if utilization of its resources is to be maximized¹⁷. Fayol concentrated mostly on the Administrative (management) side of running an organisation whilst Taylor expounded on what came to be known as the science of management. Both attempts were focused on running efficiently the business enterprise system. Fayol gave us his 14 functions of management that went a long way in helping us understand better the workings and functions of the corporate body: a) division of labour, b) authority, c) discipline, d) unity of command, e) unity of direction, f) subordination of individual interests to the general interest, g) remuneration, h) centralization, i) scalar chain of command, j) order, k) equity, l) stability of tenure (of personnel), m) initiative and n) esprit de corps.

Mary Parket Follet (1868-1933)¹⁸ and Lillian Gilbreth¹⁹ are considered amongst the first to have contributed immensely to the study of management and particularly the social systems of organizations. Both stand alongside Taylor and Fayol as great contributors to our understanding of the corporate body. Peter F. Drucker²⁰ the “social ecologist” left a lasting legacy on management and is probably the most quoted management guru in the history of management. He helped us understand the complex workings of the organization and the ramifications of good management on the corporate body and society. He is rightly hailed by many as the architect of modern management. Whilst Taylor and Fayol helped enhance our understanding of organisational systems Drucker (through his 39 books, countless articles and lectures) helped push our comprehension of business systems to levels not seen or experienced before. Drucker had a formidable ability to predict developments long before they materialise. One could go as far as to say that he was the Aristotle of management thinkers. He is the man that saw vividly major developments of his era, the 20th century, coming. Bywords such as information society, decentralization, privatization, the knowledge economy, innovation and a host of other concepts are credited to Drucker. As a thinker

he explained masterfully the real world of management and gave substance to words and ideas. As such he became the envy of many an academic that berated him (much to the chagrin of people in the real world of business) as not adding enough academic rigor to his work. Drucker understood business theory and practice probably better than anyone else that wrote on business. Drucker predicted the coming of the services explosion and the need to train people in knowledge and skills that can be meaningfully applied²¹. His critics went as far as to label him a communist (whatever that meant at the time!) because of his thoughtful position that: a) management ought to take account of the people factor in the decision-making process and b) organisations must balance profit with good citizenship if they are to have a bright future. Balance and equity was the mainstay of Drucker's work: balance between short- and long-term needs, balance between profit and social responsibility, balance between business needs and people expectations, balance between the individual and the group and balance between freedom and responsibility.

All of the above pioneers viewed the world of business and economics as a system in need of good management that can evaluate properly today's decisions against future outcomes. They believed that practically every action we take, no matter how isolated and how confined to one's area or function that might be, influences the system in its totality. All of the above were among the first to realise and document their belief in the complexity and interrelatedness of economic, business and social systems and to make recommendations on how best to deal with and manage these systems to optimal(!) effect. They all, of course, suffered the fate most pioneers suffer; being attacked by others for their "outlandish" views. For example, Adam Smith's work was attacked by none other than Ricardo. At the end the work of these people left an indelible mark on the management of the economy and enterprises and helped later generations understand how economic and corporate systems work. Each gave us an indispensable frame within which to view the workings of the economy. This frame comes under the heading of "system."

Economic and business systems cannot operate without organisation and cannot continue to function effectively without organisational renewal. Organisation develops structures, functions, reporting relationships, communication patterns, roles, authorities, and procedures, tasks to be

performed and accountabilities. The likelihood of anomie and anarchy is almost inevitable without organisation; largely because the decision-making process takes random forms. Organization presupposes a pyramid of powers spanning the whole organisation with those at the apex of the system having more legitimate authority than those at the lower end. Decisions on economic activities need to be taken by those authorised to take decisions; thus, the decision-making structure delineates decision-making boundaries.

Following the pattern of biological systems, economic systems also need methods of control (hence sensors and overlapping afferent / efferent mechanisms and pathways); otherwise activities go unchecked and the system ultimately fails. In business management terms systems require audits, appraisals, feedback reports and other mechanisms that can catch errors and misbehaviours in good time to allow the timely taking of remedial action. These system mechanisms are inherent in the economies of most countries. The issue here, however, is not whether there are control systems in place but how well these function and how independent of political interference and intrigue (and noise contamination) these are. Though centralized economic systems and command economies have more controls in place, these very often fail to be applied efficiently and independently and often lack transparency; these failures inevitably generate system anomalies.

7. Pathophysiology of a Critically ill Economy as Malfunctioning System

Coordination and discordance: Brain coordinates organ systems through an extremely complex matrix of sensors and afferent / efferent mechanisms which guarantee effective coordination and thus maintenance of physiological functions. Likewise, coordination mechanisms are a central feature of economic systems' viability considering the vast array of functions and sub-functions that are required to work in unison. Differing ministries, often with competing objectives, need to be coordinated so that these can function in a unified manner serving the overall objective. Regrettably, coordination fails sometimes because of internal conflicts that are often endemic in government bureaucracies and also because of the pull and push towards and away from centralization. Thus, we often see a pull towards more power at the top by people that wish to centralize power in their own hands and on the other end

there is push towards more autonomy further down the scalar chain of command so that decision-making can decentralize. Thus, the need for coordination at many levels is ever-present to ensure that the system functions effectively and adapts to the environment in good time.

The Legal Structure and its Common Ailments

One of the most essential prerequisites to a well-functioning economy or business entity is the existence of a highly effective and widely respected legal system. Failed economies often work within failed legal systems as well. A well-functioning legal system guarantees property rights, secures patents and copy rights and handles litigation speedily and justly. Investors shun countries with failed or malfunctioning legal systems preferring to work in countries that do not experience such problems. Further to the need for a strong legal system the country needs to have in place an efficient and just taxation system that can act as incentive for people and organizations. Economic activity needs incentives and encouragement through well-thought out programs and schemes that have the protection of a well-functioning legal system and a stable taxation regime. Amongst others investors wish to see stability and fairness in the legal and tax regimes before deciding to invest.

Depending on the prevailing beliefs and philosophies of a country its legal system can be business-friendly or, in the extreme, anti-business. Regrettably, in some cases widespread anti-business sentiment forces parliaments to enact laws that constrain business activity in a way that ultimately harms the very people and politicians that promote such disincentives. The opposite is also true when one sees greedy businessmen and other vested interests lobbying for laws that favour business and their profits but harm the general good; consumers, taxpayers and so on.

Effective public policy is essential to the rewards and punishments system of incentives and disincentives that governments put in place depending on what they wish to promote or discourage. Values and attitudes play a significant role in this regard, considering that politicians are often driven by their own political beliefs and social orientations in addition to the need to gain the favour of voters.

Synergy. Synergy is a central property of every effective physiological and economic complex system. The term *synergy* comes from the Greek “συνεργία”

which derives from the word “συνεργός”, i.e. working together. With synergy 1+1 exceeds 2; Working together helps the system outperform its part. The term synergy is often put forward in support of mergers between companies. Through synergies companies hope to enhance their combined value (higher profit and better financial performance). The creation of the European Union was made possible on the premise of synergies for member countries (unified market, no internal import taxes, free movement of capital, goods and people, etc.). Synergies are ubiquitous features of well-functioning systems.

Synergy has the ability to create new properties and value structures provided the network properties are managed efficiently and in a unifying manner. People in the corporate world know full well that it is neigh impossible to create economic surplus independently and in isolation and without cohesion between the functions of production, finance and marketing and so on. Products don't sell on their own no matter how good these are. So, customer needs must be taken into account, the cost of goods to be sold needs to be competitive, production, marketing and selling capabilities need to be in place; most importantly all parameters need to work in unison if economic surplus is to be created. The wellness of an economy cannot be predicted by just looking at each economic function independently and without regard to the whole. Synergy needs to be actively promoted, rewarded and protected. Synergy is dependent on a healthy relationship between the elements of the system.

Optimality and sub-optimality

Despite the beauty and complicated perfection of the human body physiology, optimal physiologic functioning is generally unattainable in real life because the “system” is designed to sustain several concurrent deviations from normality as well as the sub-optimal performance of one or more sub-systems; it does this by recruiting its physiological reserves and (as mentioned earlier) by deploying buffer and compensatory systems. Likewise, economic and business systems (and most other complex systems for that matter), hardly ever work optimally (at 100% performance or at 100% of potential) because of the weaknesses that are inherent in systems; mostly because of unhelpful human behavior or inherent cognitive limitations. The difficulty of getting all elements and properties to work together and in harmony is an accepted fact. Perhaps the biggest threat to the optimality of economic systems comes from

the limitations of human thought and emotion. Perhaps more so in situations that require decisions from elected representatives (e.g. corporate boards or public offices) that in some instances have weak backgrounds, may be victims of warped ambitions and dodgy moral values; but who have the cunning ability to win votes that put them in positions to take decisions for others.

The limitations of the human brain and of human behavior cause systems to fail repeatedly and almost predictably and as external and internal threats, limitations, imbalances and sub-optimal performances cross the limits of viability. When one part of the community lives at the expense of another the economic system inescapably will fail under the weight of injustice. For, example, when governments tax excessively and illogically in order to maintain the high-life styles of those in the ruling class and the bureaucrats that serve them, the real economy will ultimately be starved of liquidity and consumption and investment will stagnate. Greed, and the wish of one side to exploit the other, renders optimality a phantom and meaningless concept. Once the system fails all sides in the equation lose; both exploiters and the exploited suffer considering the interrelatedness of system properties. The reverse is also true when those that are supposed to pay their taxes fail to do so and ultimately lead the system to weaken and in the process causing great hardship to both sides of the equation.

In 1956 Herbert Simon put forward the concept of satisficing²²; a concept that is close to sub-optimality. Economic and business systems generate acceptable, but not optimal outputs. Simply, when the human brain evaluates alternative options it ends up choosing that option that meets acceptable requirements to the brain rather than optimal requirements. The preferred option cannot be optimal because of the limitations of the human brain which makes this impossible. Human thought processes are bounded /limited and cannot meet full potential. Human beings operate and decide within the confines of “bounded rationality” (to use Simon’s terminology) which make optimal decisions impossible. The limitations of human thought are not just biological or cognitive in nature. Limitations could arise out of the emotional and spiritual dimension which renders an optimal decision impossible. Human beings are emotional and often-times are guided by self-interest, self-aggrandizement and limited spirituality all of which prevent a decision from being optimal. Dishonesty inside the workings of governments and

bureaucracies of countries such as Greece, Cyprus, Italy but also of many other countries makes sound (let alone optimal) decision-making difficult; if not impossible. Cyprus, ranks 31st on the transparency index (Transparency International²³), having slipped from 29th position in the 2011 index. Transparency International sites corrupt practices between political parties and businesses in Cyprus. It also mentions lack of regulations that aim to prevent corruption from happening and weak: a) follow-up, b) tracking and c) penalization of corruption. Amongst the European Union countries that took part in the survey, Cyprus ranked 16th, so there are plenty of worse countries on the corruption index in the EU. Corruption interferes in the decision-making process as individual interests interfere with the decision-making process making optimality an unreachable goal.

Forecasting and looking into the future presents perhaps the biggest challenge/limitation to optimal decision-making. Human beings simply do not have the capacity to see the future clearly and in all its dimensions; perfect forecasting of multiple factors and imponderables is humanely impossible. Decisions that are taken now are meant to work in the future and to yield results on the basis of what actually happens in the future. But, the business and political environments change fast and in certain sectors, such as technology, changes are on-going. What held yesterday does not necessarily hold today and probably not tomorrow. Extrapolating from past data is no longer helpful in some industries because the future is unlikely to look the same as the past. Whilst Wall Street forecasted shrinkage of 0.5% for the US economy for the first three months of 2014 the final shrinkage of the economy was double that forecasted (annual rate of 1%). Strikingly, the projections were made only a few months before the actual figures were released. Needless to say those businesses that relied on such wrong forecasts suffered at the end.

Sometimes decisions fail because of human inability to differentiate small from big, important from unimportant and good from bad. Governments and businesses often take decisions that in the fullness of time prove to be totally hopeless and irrational. Take the decision of Cyprus to continue financing the government-owned Cyprus Airways (national airline) in the full knowledge that the company was a white elephant and in need of continuous subsidization (often outside EU rules!) The need to close the company down was obvious even to the uninitiated. Everyone involved in the Cyprus Airways saga new that shut-

down was the best option as subsidization was never ending. What transpired is perfect proof of decision-making that was guided by vested interests and interferences in the proper and rational evaluation of options. With party interests in mind one of the actors in the saga took the position that the company should not be sold because, “it would end up in the hands of capitalists” (*sic*). With falling union dues in mind another player put this position in camera, “if the company is sold to private interests redundancies would follow, union membership would reduce and union dues will suffer.” That was the main reason behind the union’s opposition to the sale of a failing airline that needed continuous propping up by the taxpayer. With their comfort zone in mind some pilots opposed the sale with vehemence. They were worried that they would have to look for work abroad just as many other of their colleagues did when the company began to falter. Those pilots that were party to the Cyprus Airways saga argued that, “the government is trying to barter away state property for the benefit of private interests and party hacks!” (*sic.*) Most political parties in this chronicle were prevaricating and hoping that someone else would take the right decision and the political cost of shutting down or selling an all-but bankrupt company. As the saga unfolded the tax-payer fell victim to propaganda and kept pouring money down a dark hole in the vain hope that the dead horse would be brought to life!

The limitations of human memory and most critically the difficulties in human conceptualization make optimality impossible to achieve. Proof of this are some of the most horrendous decisions that were taken, ostensibly by people with high intelligence quotient that supposedly acted rationally. In his memoirs and on the chapter covering the Vietnam War former cerebral defense secretary of the United States of America Robert McNamara²⁴ noted, “...we were wrong, terribly wrong. We owe it to future generations to explain why.” MacNamara goes on to lament the fact that in the decision-making process some of the best brains of America failed to understand what ought to have been done and plunged the country into a terrible, humiliating and debilitating war that cost hundreds of thousands of lives on both sides.

Herbert Simon’s “*bounded rationality*” and acceptable-goal attainment are proven almost daily by decisions on the economy and business and particularly by decisions on public policy. Political correctness, the need for reelection and political gain forces politicians to take decisions that often pile devastating

consequences on people. Economic decisions are more often than not contaminated by electoral politics, the need for political gain and the need to balance the varied competing requirements (often greed-oriented) of the manifold publics that politicians serve. In 1963 Cyert and March²⁵ talked about *aspiration levels* in the decision-making process. They basically say that governments, institutions and people have differing aspiration levels that basically determine the level of what they require to be achieved. High aspirations call for more and low aspirations call for less. The system is then programmed to stop once the aspired achievement levels are met. Thus, once aspirations are met the need to go higher (or to optimize) ceases to exist. So, the decision-makers psychology, needs and makeup are critical in this regard.

Interaction

Interaction between parts is another critical aspect of a well-functioning system and closely relates (in fact it is a prerequisite) to coordination and synergy. Systems need to interact internally and with the outside environment if they are to remain healthy. Closed systems limit interactions internally and as such ultimately suffer from ever increased *entropy forces* considering that their inability to communicate limits their ability of change when this becomes necessary. Systems need to receive feedback to enable them take action in the right direction and at the opportune time. Starve the organization from information and you kill its power to change and adapt. Economies and businesses need innovation to survive. Innovation, however, needs information and ideation which presuppose interaction with the environment. Closed economic systems, that often strive to protect vested interests, realise sooner or later that remaining closed leads to the system's ultimate death. Exchange of information and adaptation need to be ongoing and unrelenting if the system is to survive.

Stilted, inflexible and bureaucratic systems are programmed to die. Interactions affect and are affected by the system and its component parts. For many years before accession to the EU sections of the Cyprus economy were closed to outside competition through protective tariffs and dues. This was done in the mistaken belief that tariffs would protect Cypriot industry. This led to the withering away of the industrial base of Cyprus and ultimate death. With the opening up of the markets after Cyprus' accession to the EU many of these

protected organizations literally melted away as they were unable to compete. To (supposedly!) protect the locally-produced aluminium products the government of the day slapped on imported aluminium products a crippling import duty. One had to pay twice the price of Italian-made aluminium products for a much inferior local one. As expected, once import duties were abolished, the industry found itself in great trouble.

The same happened to, amongst others, the garment and shoe industries where customers were forced to buy expensive and often shoddy products to “protect” local industry. A characteristic example of the practices of those times is this: with union support a handful of hotel musicians managed to close the trade allowing the employment of local musicians only. This forced hotels to hire Cypriot musicians only from a very limited pool of oftentimes doubtful talent. The reader can imagine what happened as the many hotels in country vied for the services of a handful of local musicians; some with dubious musical backgrounds! With demand for musicians high the market saw an influx of unqualified and amateur “musicians” offering their cacophonous services to the hotel industry. As the hotels began to experience client complaints the practice was abandoned; but not before causing much damage to the hotel industry.

Disproportionality

Disproportionality (expression of non-linear properties) is another characteristic of complex systems. Change a part and you influence the system in a given way. Then change another part and you get a different influence on the system. Repeat the two above changes a year later and you end up with still different results to the ones you got a year back. From the human pathophysiology point of view, this phenomenon is of paramount importance, as any therapeutic intervention or bundle of interventions possesses a magnitude of effects (quantitatively and qualitatively) which may shift in time, rendering the intervention more or less effective or even detrimental to the patient depending on the circumstances and the time-frame of its deployment.²⁶

An upgrade of 1% on the totality of factors in the system does not necessarily yield a 1% change in output. Upgrade the marketing budget by 1% and you conceivably increase sales by 4%. Repeat the exercise and you get some other result. Make the same change to the sales incentive budget and you get

something else. Make a marginal change in job content (to make the job more interesting and emotionally rewarding for the employee) and you get a significant improvement in morale, productivity and profitability of the firm. Repeat the change a year later and you get something else.

Repeated attempts were made to introduce improved performance management systems in the Cyprus civil service. All attempts failed because: a) political patronage protected employees from the consequences of poor performance, b) line managers failed to truly engage themselves in an exercise which they considered dangerously near the boundaries of their comfort zone, c) high unionization provided ample protection to low-performing staff and discouraged just treatment of high-performers who were brow-beaten by the union not to “rock the board.” Similar changes in the performance management scheme were made in a Cypriot-owned private enterprise operating abroad with phenomenal results in terms of employee enhanced performance and company profitability. Organizational culture seemed to have made the difference between the two above cases. In the first of the two cases above the culture was (and still is) one of bureaucracy and indifference whereas in the other case the culture was one of vibrancy, creativity and healthy competition; most importantly reward was on merit.

Changes in one or more parts of the system could conceivably lead to unintended consequences with real outcome differing to the expected. The Hawthorn experiments²⁷ are a good proof of unintended consequences. Work performance improved as a result of a changed environment. In these experiments the fact that attention was paid to staff, in the process of carrying out observations for purposes of research, yielded higher employee interest in their job and employee short-term performance improved even if this outcome was not intended.

Deming²⁸ saw training and innovation as necessary tools for meeting the ever-changing environment in which economies and businesses find themselves all the time. *“Long-term commitment to new learning and new philosophy is required of any management that seeks transformation. The timid and the fainthearted, and the people that expect quick results, are doomed to disappointment.”* Deming gave the business and economic literature some good and traditional guidelines on instituting management transformation. These guidelines include: consistent improvement of product and service quality, emphasis on good leadership that

can deal with change, emphasis on cost minimization, building long-term relationships with suppliers, improving quality and productivity, emphasis on on-the-job training, education and self-improvement, stability and prospects for staff, reduced inter-departmental barriers, removal of barriers that take away from the workmanship and pride of employees in their work, emphasis on quality rather than only output numbers and engaging everyone in the transformation process.

In the world of economy and business, equilibrium is represented by what we commonly call bench-marks or economic indicators. The markers of a stable economic system are many and varied. It is generally accepted that unless these markers stay within prescribed range the system is bound to become unstable. By analogy with physiology, economic homeostasis refers to the mechanisms that allow critical economic indicators to remain within specified ranges and bench-marks. There are no universally accepted markers of “economic health”, but from experience we know more or less that an economy is considered healthy if it registers, for example, growth rates of above 4%, keeps unemployment in the region of 3%, inflation in the region of 1-3%, a positive or near-positive balance of trade, national debt of, say, 75% or lower, budget surplus or budget deficit of less than 1% of GDP, if it attracts serious investments, if can speed up renewal and innovation, if it has good educational and health systems, enough research and development, an annual productivity of, say, 4+%, a balanced tax system and so on. The above list is not exhaustive as many other factors such as military expenditure, income per person, quality of living and life expectancy have to be taken into account.

8. The Pitfalls of the Current Management of Economic Dysfunctions

System Break-down

System break-downs are not easy to reverse particularly if the affected system is complex in nature. Indicatively, the Japanese economy has been in recession for the past 15 years and all sophisticated attempts to revive the economy failed. The country's debt to GDP ratio now stands at roughly 200%. When the Japanese consumption tax increased slightly the country's growth rate immediately receded. The American economy went into recession in 2008 and

six years later is still fighting to regain lost ground. Five or more years into the “economic recovery process” and many of the countries of southern Europe continue to reel under the pressure of high unemployment, cash shortages, crippling private and corporate debt, inadequate investments and low business / bank system confidence.

Growth rates in the EU are now below 1% and countries such as Italy, Greece and France are stagnating and seem to be in quack mire with new investments nowhere to be seen²⁹. *Culture* is often at the centre of economic and business systems and their workings. Countries that put much emphasis on social cohesion and social support (socialist governments!) operate in a culture that differs from that of countries with a strong private enterprise / capitalist / laissez faire sentiment (conservative governments!). Recession and the accompanying human suffering brought back the ever-present debate over the role of government and interventionist policies. The western world has to a large extent adopted the capitalist system and as such unwittingly introduced business cycles, recessions, unemployment and system failures that are typical of capitalism. On the positive side, these economies benefited from capitalism and managed to keep improving their per capital income for decades.

Attitudes, mind sets, political orientations and ethics play a vastly important role in the functioning, survival and efficiency of economic systems. The German sociologist and economist Max Weber approached this problem with great enthusiasm in his seminal work on sociology and economics under the title, *Die protestantische Ethik und der Geist des Kapitalismus*³⁰. Weber put forward the view that the capitalistic system and its breakdowns started as Protestants, and more particularly Calvinists, succeeded in penetrating the minds of sufficient numbers of people influencing them to take on secular work, entrepreneurship, commerce and trade and more specifically to adopt the business of accumulating wealth and investment of surpluses, as part of their divine worldly “call” and a proof of commitment to His will. As the protestant ethic began to translate into action, capitalism began to grow bringing along wealth creation, recessions and unemployment.

There are philosophical arguments that support that economic failures are rooted in the failure of leaders (in politics, government, business, education, etc.) to behave in a just and equitable manner and according to the spirit God. The *Judeo-Christian ethic* is characteristic of the above thinking. The rules of

decent behavior lay the foundations that can create the preconditions for a healthy economic and business system. The adoption of this kind of mindset and behavior can act as barrier to system failure, recessions and unemployment. Speaking about America, James P. Eckman³¹ summarized well what happens when an economic system departs from basic ethical principles.

He said,

Some business leaders have been motivated by greed and selfishness ... The ethical foundation of American culture that prevents business leaders from engaging in unethical activity is gone. I would strongly argue that as the ethical foundation of the American financial system has crumbled, the state has stepped in and rewritten the rules for financial and business dealings. The result is an economic and financial system overseen by impersonal bureaucrats, who first write and then seek to enforce literally volumes of rules and regulations. Those rules and regulations replace the simplicity of God's moral law ... The more we depart from God's moral law, the historic foundation of our civilization, the more onerous and complicated government regulation will become. The more this occurs, the more the American economy will no longer be able to compete, and its capacity to generate innovation and wealth will be gone.

The above passage reminds one of Cyprus, Greece, Italy, Spain, etc. James Eckman is talking about ethical behaviour, and lack thereof, which to a large extent explains many of the ills of our economic system. Chicanery, deviousness, love for money, greed for material things and lack of scruples have catapulted economic failure to new heights and have laid the foundations for a repeat even if the recession is reversed for now. Disrespect towards ethical standards has been a major cause for the economic desolation we are now experiencing in southern Europe and elsewhere. Christian ethics have been to a large extent absent from the lives of many that hold positions of leadership in politics, business, education, entertainment and in almost all fields of endeavour. The concept of self-imposed boundaries on recalcitrant behaviour is all but missing in many areas of business. Deviant and unethical behaviour is sometimes rewarded with bonuses for short-term fictitious business gains (see the banking sector!). Instant gratification through borrowing and rising debt has been the hallmark of much of our behaviour. Meanwhile the state is in the

business of collecting taxes without much accountability as to their proper use. The concept of value for money (taxes collected vs benefits offered to the taxpayer) for many governments in southern Europe is all but unknown.

The Pitfalls of Management from the Pathophysiology point of View

One size fits all appears to be the current default “treatment” recommended by the Troika for its patients (failing economies): Aliquots of cash in the form of loans, crippling austerity measures in the form of higher taxes and lower social benefits. In the case of Cyprus, the weaker of the troubled economies, the Troika also forced on the banks depositors a deep hair-cut to help with their capitalization which to this day is dangerously inadequate despite repeated injection of new capital. Thus the Troika dispenses its “traditional” bitter elixir (its “panacea” medical potion) for all ailments and without regard to the economic patient’s make-up: geographic and population size, culture, religious orientation, history, societal circumstances etc. Notwithstanding how primal and insensitive the approach looks, this has started to dominate increasingly the lives of those living in South Europe. No care is paid in re-enforcing “buffer systems” which would maintain critical social parameters within acceptable (viable) limits. Interventions are frequently not timed properly or targeted enough, and patient complications are not monitored in a safe and meaningful way; to mention just few of the counter-physiological outcomes of treating human economic suffering. Worryingly the team of medical practitioners can cut off the potion (loan tranche) if they judge that the patient is not towing the line. The Troika sometimes (not often) behaves like the proverbial medical practitioner that threatens the patient with abandonment the moment the patient has no recourse to other medical assistance. Or, like the proverbial medical practitioner that abandons the patient in the middle of the treatment because of worries that the patient may be unable to pay the mounting bills. Troika wields a lot of power and just as a powerful medical insurance provider can cut off all access to hospitals, medical treatment and the like to patients in economic trouble the Troika can cut off a country from international financing. The Troika asks for its money to be paid back as agreed with little regard to the societal needs of the debtor country. It has the power to cut off a wayward debtor from the money markets and to even bankrupt the country literally overnight. If the Troika experiment works (because Cyprus is a guinea pig in an experiment with depositor hair-cuts in conjunction with austerity measures) then all will be well.

Otherwise, the suffering of people will be prolonged; those that created the problems in the first place and those that dispensed wrong treatment will have a lot to answer for as regards widespread unemployment, break-down of societal structures, political crises, etc.

9. Systems Management Evolution: Time for a New “Therapeutic” Paradigm for Critically ill Economies?

Economic systems evolve all the time but also use precedent to provide predictability. As economies expand and as the imponderables of competition come into play the system itself ought to evolve to accommodate the many changes that face it. Perhaps the biggest evolution in the Cyprus economic system has been that of moving away from an agrarian economy (first stage) that was in place for thousands of years to a quasi-sophisticated one (second stage) over a short period of 40-50 years. This evolution was soon followed by economic collapse as the system could not cope with the required sophistication that the second stage of development called for. The agrarian Cyprus economy was turned into a service economy at dizzying pace (mainly tourist, shipping and financial services including all the financial peripherals). The evolution of the banking industry was swift, haphazard and consequently risky.

Cyprus was living under the illusion that it was operating a sophisticated center of financial services the moment this was not recognized as such by the major financial players of the world: London, Frankfurt, and Zurich. The banking system depended heavily on high-interest-paying deposits that primarily came from three sources: local depositors, businessmen from the former USSR and to a lesser extend third world depositors. Cyprus failed to understand that sophisticated banking systems draw deposits and investments from a wide spectrum of countries that recognize the financial institutions of the country as developed, sophisticated and (most importantly) serious. To the trained eye the collapse of the Cyprus financial industry was a matter of time considering that the system was working without a strong rudder. For example, whilst other countries in the EU offered depositors interest rates of say 1.5 - 2.5% Cyprus paid double this rate making the country an attractive proposition for short-term investors and speculators that flooded the island with money. These deposits, however, had to be loaned out to bring revenue to the banks. This in

turn let to the accumulation of risky loans to unworthy borrowers. This, coupled with corruption from varied sectors created the situation that Cyprus now finds itself in. Cyprus' financial system was in many ways working by its own rules and outside what is known as the conventional system. One word can best characterize the financial industry of Cyprus: *excess*: a) the industry was obese and probably suffering from diabetes that raised dangerously the risk of leg amputation (financial sector balance sheet of 7-8 times GDP that finally ended up in amputated deposits,) b) over-sized deposits that clogged the banking sector's arteries and forced it to take measures, which only a witchdoctor would have recommended, to unclog the organism, c) over-sized and dangerously-risky loans that created the toxic non performing loans (NPLs) that crippled the sector just as high blood pressure does to a patient.

It is time for profound changes in Cyprus' economy; but most importantly, in Cyprus' society and political system. Is the society itself ready for the unavoidable "painful" surgical operation that supposedly will revive the patient and restore him to health? Are there mature methodologies to be used to reconstruct reality and monitor its change and the side effects? Depriving a society from luxury is manageable. Stripping a nation from its self-respect, the children from descent education, the youth from hope and prospect, the elderly from meaningful support and the poor from medical care does not auger well for the future. Is the Memorandum with the Troika moving Cyprus in the right direction? Time will tell; even though for the moment the health of the economy and its prospects for recovery do not look at all well.

10. Concluding Remarks

Multiple lessons from pathophysiology and history teach us that, dysfunctional human systems in general and failing economies in particular, should be considered and dealt with in respect to their complexity, their uniqueness and most importantly failure should be treated holistically. Entropic forces (which tend to disrupt and cause chaos) and buffers - dynamic homeostasis mechanisms (which maintain balance) should be identified and their particular characteristics analyzed. Interventions should be planned accordingly with a view to annihilating the former and reinforcing the latter. Each sick person is sick in his own way just as each failing economy is failing in its own particular way. Thus, treatment would need to vary accordingly.

Human nature (and its great malfeasance: greed and fear), the strengths that are inherent in a country's human resources and the quality of management that is available are cardinal factors for the prevention and treatment of a diseased economy that needs to be restored to health. Leading by example and re-discovering lost ethical standards and values are of paramount importance to the healing process of society's economic and other ailments. Like biological systems, failed economic systems need methods of control (hence sensors and overlapping afferent / efferent mechanisms and pathways) otherwise activities and treatment effects / side-effects go unchecked and the system ultimately buckles under pressure. Coordination, the legal structure, synergy, optimality (satisfaction!), forecasting capabilities, recognition of disproportionality and proper interaction are crucial parts of this monitoring and change mechanisms; these are the "sensors" that control and protect corporate governance from slipping back into suspect practices.

It is astounding that the mainstay of current "treatment" of failing economies appears to be aliquots of cash (loans) and crippling austerity measures (supposedly to re-start the economy but in essence driving it to the ground). Worst still these are presented as panacea for all ailments for all societies irrespective of size, culture, religious background, history, societal circumstances etc.

Economic systems evolve all the time (just as the Western world's Calvinistic capitalism is evolving too). Thus, therapeutic strategies and interventions for failing economies should also evolve adapting accordingly but always remaining helpful rather than harmful ("Ὀφελεῖν ἢ μὴ βλάπτειν").³² In this respect, the interests of the lenders should harmonise with those of the borrowers always guided by the moral criterion of philanthropy and the need to help. Humanitarianism and public-spiritedness (all ancient Greek traits) should not be lost in our drive to "save" the economy. Financial tools are essential for economic recovery; But no economy can be sustained in the long-run without strong ethical standards that should be built into the economic system to help bring morality to decision-making. With the help of the twin tools of financial rule and ethical behaviour society can overcome its economic failures whilst restoring the individuality and self-respect of the citizens and maintaining a country's cultural identity. We urgently need a holistic approach that will encompass the tangible and the intangible, the economic and the social, the financial as well as the spiritual fundamentals.

(Note: “he” = “she” in this paper).

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Greece and Cyprus as Geopolitical Fodder

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RÉSUMÉ

La Grèce et Chypre ont été, et sont, des ballons politiques de football dans un jeu dangereux entre puissances extérieures et acteurs extérieurs; ceci est un fait de vie du jeu d'échecs géopolitique de l'Est de la Méditerranée. La peur de la Russie abonde (voir la débâcle ukrainienne) dans les esprits et les actions des Britanniques et des Américains comme ils l'ont toujours fait. Le résultat de cette obsession pour Chypre est que les Etats-Unis font pression dure pour une «solution» à son problème politique, inquiets à l'idée que tant que Chypre inoccupée a sa propre politique étrangère, ce qu'elle a, il y aura toujours un danger qu'elle se rapprochera de Moscou. Il est important, dans l'esprit des Américains qu'une coopération stratégique turco-israélienne au Moyen-Orient, en particulier sur la Syrie, est une priorité encore plus grande aux États-Unis qu'une Chypre réunifiée. Grèce et Chypre font partie de ce jeu dangereux de l'évolution en raison de la peur irrationnelle et atavique de la Russie de la part de la Grande-Bretagne et de son empire successeur, les Etats-Unis.

ABSTRACT

Both Greece and Cyprus have been, and are, political footballs in a dangerous game between outside powers and outside players; this is a fact of life of the Eastern Mediterranean geopolitical chess game. Fear of Russia abounds (see the Ukrainian debacle) in the minds and actions of the British and the Americans as they always did. The upshot of this obsession for Cyprus is that the US is pushing hard for a 'solution' to its political problem, worried at the prospect that as long as unoccupied Cyprus has its own foreign policy, which it has, there will always be a danger that it will move closer to Moscow. Importantly, in the minds of the Americans Turkish-Israeli strategic co-operation in the Middle East, particularly on Syria, is an even greater priority to the US than a re-unified Cyprus. Greece and Cyprus form part of this dangerous interplay of developments owing to the irrational and atavistic fear of Russia on the part of Britain and its successor empire, the US.

'A truly independent Greece is an absurdity. Greece can either be English or Russian, and since it cannot be Russian, it is necessary that she be English.'¹

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Introduction

The above quote, well-known and well-worn though it may be, is still valid today, whatever lip-service is paid to the concept of the free West and the importance of national sovereignty. While no right-minded politician would speak in such honest terms today, the fact remains, as we shall see, that Greece and Cyprus are on the periphery of world affairs when it comes to independence of action, while Greece can even be described as a client state in some respects, particularly when one takes into account the Troika straitjacket into which it has been forced, admittedly through the folly of its own alleged leaders as much as through the greed of financial interest groups. Dramatic it may sound, but financial terrorism is a new and unwelcome factor in the geopolitical cesspit of the Eastern Mediterranean, as Cyprus well knows. The whole farrago of the current instability in the Middle East – Syria, Lebanon, Turkey and the never-ending Palestine-Israel charade, has recently been enhanced by events in The Ukraine, while Greece's and Cyprus' involvement with Israel on the gas front has bedevilled and possibly put at risk their relations with an increasingly powerful Russia. Before looking at modern Greece and Cyprus from a historical angle, within the context of their political geography, and the obsession with Russia, I shall bully off by setting out my approach with a brief critique of geopolitics and the dangers of the misuse of international relations theory, introducing my geohistory as a more viable and mature method of analysis and evaluation. As such, I shall offer a simple cerebral underpinning, but certainly not a conceptual framework, the latter being the preserve of international relations theorists seeking their pot of gold at the end of a rainbow. Then I shall consider Greece and Cyprus as geopolitical fodder, bearing in mind Britain's and the US's obsession with Russia within the context of the Eastern Mediterranean geopolitical lavatory, before concluding.

Geocrudity

As Lin Yutang wrote, putting human affairs into exact formulae shows a lack of sense of humour and therefore a lack of wisdom, while Man's love for definitions is a step towards ignorance. The more he defined, aiming at an impossible logical perfection, the more ignorant he became.² So it is with much post-sixties international relations theory³, but especially with geopolitics, a

‘primitive form of IR theory’, as Christopher Hill calls it.⁴ Geopolitics as a modern label is closely associated with the obsession of big powers to gain yet more power, through the control of resources. Despite its close association with the imperialist-minded Mackinder, and Nazi advisor Haushofer, it was Kissinger, of all people, who helped to slide the term back into current international relations terminology. The term is often used by politicians, who sometimes ignorantly interchange it with the term ‘geostrategy’. With the increasingly desperate struggle for the world’s resources, oil and gas pipelines almost become geographical maps. Old style borders, encompassing culturally and homogenous groups of people, become less relevant in the eyes of the geopolitician. As Hill writes, the random way in which frontiers are superimposed on the world means that states vary enormously in size, mineral wealth, access to the sea, vulnerability, and cohesiveness.⁵ A look at a map of the Middle East is enough to show how cynically Britain and France carved up much of the area following the Sykes-Picot deal to suit their geopolitical lusts. The medium and long-term results have been tension in the area ever since. The very foundation of the modern state of Greece, let alone that of Cyprus, was based on a compromise between the big powers as much as on love of Greek freedom, as we shall see later.

The Maelstrom of Theories

There is nothing wrong with theorising *per se*. Indeed, it can often aid analysis and even evaluation. The problem comes with the fact that many theories clash with each other, often the result of a thinker setting out to explain, and even to try to solve, an international relations problem, by making a model. The problem there is that he then imprisons himself mentally in his model, and ceases to actually think freely. On top of that, he often selects – usually subliminally rather than dishonestly – only those bits of information that suit his model, and ‘prove’ his theory. In this sense, most models tend to be Procrustean, since they must be made to fit. All this is bedevilled by the clash between realists and behaviouralists, further enriched by structuralism, modernisation theory, dependency theory, world systems analysis, positivism, constructivism, critical theory, post-modernism, normative theory, pluralism and functionalism. Most of these also have their sub-divisions, and are even connected to each other, to a greater or lesser extent. The problem is that there is no single nirvana theory

that explains and solves everything. Matters can sometimes reach a farcical level: for example, when Fukuyama dramatically wrote about the end of history, on being proven mistaken, he then turned to 'masculine values' being rooted in biology as playing a central role, writing that female chimps have relationships, while male chimps practiced *Realpolitik*.⁶ Much the same can be said of Huntingdon's 'Clash of Theories', with its simplistic and sometimes inaccurate and mistaken pigeonholing of history. Add to this international relations theoreticians' obsession with categorising, categorising the categories, and then sub-categorising, serious reflection disappears, the thinking processes become enslaved in nice-sounding labels, to the detriment of real substance and free thought.

Geohistory

My geohistory, in contrast, means that far from packaging thoughts, ideologies, concepts and events into personal interpretations of history to suit one's own wishes, or those of others, history becomes a neutral continuum that remains perforce entirely unaffected by any interpretation. Historicism, and even historiography, are discarded. The past is simply the past, which blends into the future as we write. Events alone can of course be interpreted (indeed, we all have our mental filters), although the very act of interpreting does tend to create dispute in the form of what we can term 'different colours'. We can nevertheless say that the same things have been happening, and will continue to happen, however we choose to package and interpret them, simply because they are predicated on immutable human characteristics. History does not however repeat itself precisely, but rather the behaviour of the human species manifests itself *ad infinitum* with different colours to suit our own selfish desires, new technology and allegedly new ideas. Therefore, it can be argued that Hegel and Marx, for example, were banging their heads against the wall in using (their view of) history to argue in favour of, for example, German superiority, or materialism.

When one has looked behind the stage of relations between states, in other words, when one has scrutinised government documents over a number of years, as they are released, one finds that fundamental policy alters surprisingly little, whatever the public messages put out by governments. Indeed, one finds remarkable consistency. Thus, despite the Russian Revolution of 1917, and the

dismantling of the Soviet Union in the early Nineties, a fundamental ingredient of Russian policy today is still to have some influence over events in its own back-garden, and to have access to the Eastern Mediterranean. In the case of Greece, but particularly Cyprus, it is clear that the latter has for hundreds of years never been complete master of its own destiny. This is where Britain and the United States come in. We shall now begin to home in on our theme, through geohistory.

Greece's Qualified Independence

A myth abounds that in 1832, a new and sovereign monarchical Greece was created. Sovereign it was, up to a point, but as a protectorate of the major powers, the very powers involved in agreeing to its existence. Let us look briefly at how this came about. By the time of the struggle for Greek independence, Greece had become a mere geopolitical tool of the British empire, the latter even owning some Greek lands, the Ionian Islands. It is to Russia, not Britain, that Greece owes its qualified freedom (although revolutionary and Napoleonic France also have an intellectual claim), and it was despite, not because of, Britain, that the 1821 revolution ended in independence. It was the Anglo-Russian Protocol of 4 April 1826 that did the trick: it stated that Britain would mediate to make Greece an autonomous vassal of the Ottoman Empire, but that if this proved impossible, Britain or Russia could intervene jointly or *separately*. Russia intervened, and by 1829, Greece, or at least some of it, was free. When the philhellenic Admiral Codrington and his French and Russian homologues sank the Egypto-Ottoman fleet at Navarino, the Foreign Secretary, Wellington, is well known for having described the battle, in typical English understatement, as an 'untoward event', while his ally Metternich described it as a 'dreadful catastrophe'. Somewhat arrogantly and cynically, the latter had also, when speaking of the Greeks, said: 'Over there, beyond our frontiers, three or four hundred thousand individuals hanged, impaled, or with their throats cut, hardly count.'⁷

Whatever the simpering protestations of well-paid off designer academics in both Britain and Greece, British policy has been essentially antithetical to Greek interests since the very inception of the modern Greek state. Apart from a few flashes in the pan, and a few individuals like Canning, the only help Greece has received has been from private individuals such as Lord Byron, or public

individuals who were brave enough to go against official British policy, such as Admiral Codrington. Britain was forced into helping Greece, to keep a finger in the Mediterranean pie, for fear of Russia ending up as Greece's main sponsor, and weakening Britain's Ottoman friends. The Don Pacifico Affair is an example of Britain's attitude, when Britain actually threatened Greece with gunboats; while during the Crimean War, Britain, with its then French poodles, blockaded Piraeus. In 1916, Britain and France even interfered militarily in Greece, being beaten back by the King's forces, and then getting their revenge by backing the controversial and Britain-friendly Venizelos, who favoured war: he blindly led Greece into a war which was to lead to the famous catastrophe.

The next war is another example of Britain's disdain. Despite the fact that Greece stood alone with Britain against all the odds, for several months, the help that Britain sent was minimal, and the British did not engage in too much hard combat with the Germans, confusing many of the tough Greek fighters, who had already earned their spurs against the Italian invaders. The Greek civil war is an even worse story: having supported the strongest anti-German resistance, ELAS, Britain then turned against it, ending up supporting those Greek forces which had been closest to the German occupiers, and fuelling a destructive civil war. As Francis Noel-Baker wrote: 'Instead of making Greek resistance more moderate, more democratic, more truly representative of the mass of Greek opinion, we drove it to extremes.'⁸

Extracts from a Foreign Office (FCO) paper prepared for the Foreign Minister, Anthony Eden, in June 1944 show how Britain betrayed their main anti-German Greek resistance allies, essentially because of her obsession with, and distrust of, the Soviet Union (which was for them Russia):

[...] Nor can any accusation be levelled against the Russians of organising the spread of communism in the Balkans.[...] The Soviet Government's support of the Communist-led elements in these countries is not so much based on ideological grounds as on the fact that such elements are most responsive to and are the most vigorous in resisting the axis. [...] Furthermore, if anyone is to blame for the present situation in which the Communist-led movements are the most powerful elements in Yugoslavia and Greece, it is we ourselves. Russia's historical interest in the Balkans has always manifested itself in a determination that no other Great Power shall dominate them, as this would constitute a strategical threat to Russia.

[...] whereas in the nineteenth century we had Austro-Hungary as an ally to counter these Russian measures there is no one on whom we can count to support us this time. [...] As a result of our approach to the Soviet Government, however, the latter have now agreed to let us take the lead in Greece.⁹

Apart from the clear evidence that the British obsession with Russia (and Britain's schizophrenic support for the communists in Yugoslavia and the anti-communists in Greece) and the Eastern Mediterranean had not changed, we see here that Churchill's and Stalin's infamous 'percentages agreement' at Yalta a few months later, whereby Greece would be ten per cent Russian and ninety per cent English, already existed in essence. Greece was merely a geopolitical tool for Britain, which was soon to replace Austro-Hungary with the United States of America to counter Russia. Some of the main ingredients of the Greek civil war were Churchill's obsession with the return of an unpopular Greek king, Britain's obsession with Russia, and thus the way in which Britain helped, whether by default or design, to polarise the forces in Greece. In this sense, the Cold War began in the Balkans, since, as we can see, the Foreign Office (FO) was already doing its utmost to keep the Soviet Union well away from Greece, well before the struggle for Germany had begun. Indeed, the Allies had only just landed in Normandy. The Joint Planning Staff wrote in December 1945:

Our strategic interest is to ensure that no unfriendly power, by the acquisition of Greek bases, can threaten our Mediterranean communications. On the other hand, we wish to liquidate our present military commitment as soon as possible.¹⁰

In 1947, Britain handed Greece to America, thus introducing US and future NATO power into the Balkans. The Truman Doctrine and massive deliveries of military hardware – as well as the Tito-Stalin disagreement - put an end to the civil war by 1949, and a bitter and exhausted Greece was now free to join NATO, as it did in 1952. But the divisions caused by the civil war lived on in the party-political system. Shades of it still exist today.

Cyprus's Qualified Independence

1947 was certainly a defining year for Cyprus, and indeed for the Eastern Mediterranean. The Truman Doctrine was all the rage in Greece and Turkey,

while the first Macarthyst tendencies were being exported from America. The Foreign Office, as well as the Colonial Office, which was responsible for Cyprus, considered whether to cede Cyprus to Greece. The factors favouring the latter were: the Atlantic Charter and the Universal Declaration of Human Rights; impending decolonisation, for example in India, Transjordan, Burma and Ceylon; the handing of the Dodecanese by Italy to Greece (via the British Military Administration); and the natural feeling of the Greek Cypriots that they were in fact Greek, just as Greek Cretans had felt Greek. A senior Under Secretary in the Foreign Office argued strongly that giving up Cyprus would contribute to Greek morale and British influence (the civil war was in full swing), and prevent future strife in Cyprus.¹¹ But other forces, including the War Office, argued that with a Communist Greece, to give up Cyprus would be a serious mistake.¹² There was a whiff of hypocrisy in this argument, since the massive arms deliveries by America were on the agenda, and the US had entered the picture, courtesy of Britain. What can be said is that, whether by design or default, the Greek civil war was used as an excuse to hang onto Cyprus.

The story of the bitter fighting that led to Cyprus's qualified independence is too well known to repeat here. Suffice to say that the British colluded with Turkey, brought them into the equation illegally (in contravention of Article 16 of the Treaty of Lausanne), and were finally pressurised by the US to do a deal whereby Britain would keep some of Cyprus, allied to various other rights, rights which made a mockery of true sovereignty. Thus, Cyprus's alleged independence in 1960 was predicated on the British retaining both Cypriot territory and various other rights, mainly in the military field. Disraeli's words in 1878 are still valid today:

*If Cyprus can be conceded to your majesty by the Porte, and England at the same time enters into defensive alliance with Turkey, guaranteeing Asiatic Turkey from Russian invasion, the power of England in the Mediterranean will be absolutely increased in that region and your Majesty's Indian Empire immensely strengthened. Cyprus is the key of Western Asia.*¹³

Perhaps one difference today is that US power has increased in Cyprus, as the British bases are in all but name NATO ones, and since the US shares British electronic intelligence-gathering. Even when Britain tried to give up its bases in the wake of the Turkish invasion, Kissinger simply said no. By 1980,

the idea was dead, and a Thatcherite administration put paid to any idea of upsetting Britain's American brothers. Since then, we have seen Cyprus used by Greece (the Sampson coup), Turkey (the occupation) and even Russia, when it sold S-300 defence systems to Cyprus, in the possible knowledge that it would cause problems for NATO. In the end, Cyprus succumbed to Turkish bombing threats, and the system ended up on Crete.

The Russian Obsession

That both Greece and Cyprus have been, and are, political footballs in a frenetic match between outside players is a fact of life of the Eastern Mediterranean geopolitical lavatory. Fear of Russia still abounds, just as it always did:

The most serious consequence of all would be that our withdrawal would lead to the ultimate establishment of Soviet influence on the island. Though this is perhaps not very likely, it is not impossible that an independent Cyprus Government, deprived of the economic benefits of our bases, might bring it upon themselves by seeking Soviet aid.¹⁴

That was in 1964. By 1975, the Cold War was at the base of Britain's and American thinking on Greece and Cyprus:

We must also recognise that in the final analysis Turkey must be regarded as more important to Western strategic interests than Greece and that, if risks must be run, they should be risks of further straining Greek rather than Turkish relations with the West.¹⁵

The above-mentioned sale of S-300's is but one example of Russian involvement. Another example, perhaps more serious, was Russia's rejection at the UN Security Council of western last-minute attempts to make the infamous Annan Plan look acceptable. Today, nothing has changed. Russia simply wants a demilitarised Cyprus to be the price of re-unification.

Now

Greece and Cyprus will continue to be geopolitical fodder for the foreseeable future. The Ukraine débâcle has enhanced this likelihood. Recently, despite a cheap Russian loan to Cyprus, Greece, Cyprus and Israel have irritated Russia

by presenting their co-operation on gas exploration and potential production as a way of reducing EU dependence on Russian gas. On 9 April 2014, Cypriot President Anastasiadis told Reuters in an interview that the discovery of gas within Cyprus's economic zone would facilitate international efforts to solve the Cyprus problem and provide an alternative energy supply source to Europe, thus decreasing its dependence on Russian gas imports.¹⁶

Israel's finger in the geo-lavatorial pie of Greece and Cyprus, enhanced by its US-sponsored strategic co-operation with Turkey, is also a complicating factor, and a potentially destabilising one at that since, apart from irritating Russia, various military exercises between Greek, Cypriot and Israeli forces are hardly likely to please Moscow, in that they give Israel a connexion with NATO. The American Vice-president Biden's visit to Cyprus on 21 and 22 May 2014 demonstrated increasing US involvement in Cyprus, essentially to 'show the Russians'. As expected, Biden emphasised both Cyprus's potential help to the EU on the gas front, and even linked gas to a solution to the Cyprus problem. The timing of his visit, just before the controversial presidential elections in the Ukraine, spoke volumes.¹⁷ Cyprus can expect to be pressurised into another Annan Plan. But whatever happens, it will be a 'solution' predicated on the British bases, meaning that Cyprus will not have its own foreign and military policy, whatever the semantics. In this connexion, you readers may well remember how, in the frenetic negotiations on the Annan Plan, the US and Britain, in their desperation to secure the future of the bases, tried to get Greece, Turkey, Cyprus and to sign a so-called 'Foundation Agreement', which would have reaffirmed the validity of the 1960 treaties, treaties which had been shown to have failed, and in many respects, disregarded. On top of that, the plan would have obliged Greece and Cyprus to support Turkey's accession to the European Union. Thus, the bases were seen as the main objective of the US and Britain, along with getting Turkey into the EU, just as a quarter of a century before: at the end of 1980, having completely succumbed to the master-butler relationship, a senior Foreign Office official wrote:

The benefits which we derive from the SBAs are of major significance and virtually irreplaceable. They are an essential contribution to the Anglo-American relationship. The Department have regularly considered with those concerned which circumstances in Cyprus are most conducive to our retaining unfettered use of our SBA facilities. On balance, the conclusion

*is that an early 'solution' might not help (since pressures against the SBAs might then build up), just as breakdown and return to strife would not, and that our interests are best served by continuing movement towards a solution – without the early prospect of arrival.*¹⁸

The only difference today is that the US is pushing hard for a 'solution', worried at the prospect that as long as unoccupied Cyprus has its own foreign policy, which it has, there will always be a danger that it will move closer to Moscow. At the same time, it is important to bear in mind that Turkish-Israeli strategic co-operation in the Middle East, particularly on Syria, is an even greater priority to the US than a re-unified Cyprus. Although Turkish-Israeli relations have been adversely affected by Erdogan's anti-Israel rhetoric on the Palestinian question, the US-sponsored effort to use Turkey and Israel (as well as Greece and Cyprus) to exclude the Russians is still very much there.

Another annoyance for Russia was the Burgas-Alexandroupolis oil pipeline farrago, when Russia realised that Greece was simply becoming a US and German client state *par excellence*. Cyprus, perhaps because of its geographical and geohistorical position, may however be less of a client state than Greece. Should Russia consider guaranteeing its security, then it would be tempting for some sections of the Cypriot political spectrum to offer Russia a long-term naval and air-force base. That would certainly put the cat among the pigeons. It would also mark a step away from the official Russian position on Cyprus, namely that she will never accept a united Cyprus, unless it is non-aligned, forbidden to join NATO, and the Americans allow Britain to give up its bases. Current shifts in Russian policy caused by NATO's obsession with The Ukraine's resources and its proximity to Russia could well see Russia adopting a firmer line on Cyprus, and even Greece and Turkey. Her Mediterranean navy is increasing in size.

To Conclude

Can one ever really conclude anything connected to relations between states? In 1969, the State department wrote:

*No solution is permanent. A glance at the last 3,500 years of Cypriot history demonstrates that the Phoenician, Greek, Assyrian, Macedonian, Egyptian, Persian, Roman, Byzantine, Saracen, Frankish, Venetian, Genoese, Turkish and British solutions were not permanent, regardless of how permanent they may have been at one time.*¹⁹

Despite the simplistness and superficiality of the categorisations (for example, the separation of the Greeks from the Macedonians), the contention that no solution is permanent holds a fair amount of water, if one looks at history. The real factors that determine the state of our world are human behaviour and characteristics, both individual and collective. Thus, the title of this piece, cruel though it may be, and even if it may upset the more nationalistic Greeks and Cypriots, is valid. Worse, it may even be taken to imply that Greeks and Cypriots are themselves geopolitical fodder. This is of course hardly something that is restricted to Greeks and Cypriots. After all, Britain and Saudi Arabia are client states *par excellence*, and The Ukraine is now being fought over by all manner of external forces.

Atavism is an important human characteristic: just as Britain and France fought the Russians in the Crimean War, so now the same kind of frightened forces are interfering on Russia's doorstep. For better or worse, Greece and Cyprus are connected to this tawdry picture, owing to the irrational and atavistic fear of Russia on the part of Britain and its successor empire, the US. In Guicciardini's words, the same things return with different colours, while in Vico's thinking, we are passing into a state of anarchy. This is what happens when empires are beginning to die.

NOTES

1. Sir Edmond Lyons, British Minister to Greece, 1841.
2. Yutang, Lin, *The Importance of Living*, Heinemann, London, 1976 (first published in 1938), pp. 9 and 404.
3. Here, I am not of course referring to the sensible English School of the sixties, and the likes of Hedley Bull and Martin Wight. See *Diplomatic Investigations*, Butterfield, Herbert and Wight, Martin (eds.), George Allen and Unwin Ltd., London, 1966.

4. Hill, Christopher, *The Changing Politics of Foreign Policy*, Palgrave Macmillan, Basingstoke, 2003 p. 168.
5. *Ibid.*, p. 169.
6. Bell, Duncan, ‘Beware of False Prophets: Biology, Human Nature and the Future of International Relations Theory’, *International Affairs*, Vol. 82, No. 3, Chatham House, London, May, 2006.
7. Sked, Alan (ed.), *Europe’s Balance of Power, 1815-1848*, Macmillan, London, 1979, p. 7. Sked quotes de Bertier de Sauvigny in *Metternich and his Times*, Darton, Lonman and Todd, 1962, p. 251.
8. Noel-Baker, Francis, *Greece: The Whole Story*, Hutchinson & Co., London, 1946, p. 43.
9. Top Secret Foreign Office Memorandum for Secretary of State, 7 June, 1944, FO 371/43646, file R 9092. in Mallinson, William, *Britain and Cyprus: Key Themes and Documents since World War Two* [really World War Four, see note 13], I.B.Tauris, London and New York, 2011, pp.12-14.
10. Report by Joint Planning Staff, 3 December 1945, FCO 371/48288, file R 21028/G.
11. Mallinson, William, ‘Turkish Invasions, Cyprus and the Treaty of Guarantee’, *Synthesis – Review of Modern Greek Studies*, vol. 3, no. 1, 1999, London School of Economics and Political Science, p. 41, FO 371/67084. File R13462/G.
12. *Ibid.*, p. 31.
13. Buckle, B.E., *The Life of Benjamin Disraeli, Earl of Beaconsfield*, London, 1920, p.291.
14. Foreign Office paper, 13 March 1964, DO 220/170, file 2-MED 193/105/2.
15. ‘British interests in the Eastern Mediterranean’, paper prepared by Western European Department, FCO, 11 April 1975, FCO 46/1248, file DPI/516/1.
16. *Cyprus Newsletter*, no. 23, May 2014, Friedrich Ebert Stiftung.
17. Interestingly, Biden’s son has just taken up a position in a Ukrainian gas company, Burisma Holdings, which has its headquarters in Cyprus. Most serendipitous!
18. *Minute* from Fergusson to Foreign Minister’s Private Secretary, 8 December 1980, FCO 9/2949, file WSC 023/1, part C.
19. *State Department Policy Statement on Cyprus*, enclosed with a *letter* of 6 February 1969 from Folsom (State Department) to Smart (British Embassy, Washington), FCO 9/971, file WSC 3/3 18/2.

Natural Gas – Fundamentals, Geopolitics and the Way Forward for Resource Monetization

Solon Kassinis*

RÉSUMÉ

Le mot «gaz» a été proposé par le chimiste flamand du 17^{ème} siècle Jan Baptist van Helmont, comme une orthographe phonétique de la prononciation néerlandaise du mot grec «chaos», qui a été utilisé depuis 1538 selon Paracelse pour l'«air». Le gaz naturel est un combustible fossile, gazeux, constitué essentiellement de méthane, mais avec des quantités mineures d'éthane, de propane, de butane et d'hydrocarbures lourds de pentane.

Le gaz naturel gagne de plus en plus de terrain comme le combustible fossile conventionnel «préféré» pour les décennies à venir, en raison de sa caractéristique de combustion plus efficace et plus propre. Il deviendra le prochain combustible fossile le plus utilisé, en remplacement du pétrole.

En vue de renforcer la sécurité de l'approvisionnement énergétique, d'améliorer l'autosuffisance énergétique et pour protéger le rôle géostratégique du pays, des actions systématiques et des plans dans le secteur de l'exploration des hydrocarbures ont été développés à Chypre depuis la dernière décennie. Chypre a officiellement inauguré ses activités d'exploration offshore en 2006 avec l'acquisition de 2-D et des données sismiques 3-D, suivie d'une autre acquisition sismique 2-D, et l'interprétation des données traitées. Deux séries d'octroi des licences ont suivi, en 2007 et 2012, ce qui a abouti à l'octroi de six licences d'exploration offshore au total.

ABSTRACT

The word 'Gas' was proposed by the 17th century Flemish chemist Jan Baptist van Helmont, as a phonetic spelling of his Dutch pronunciation of the Greek word 'chaos', which was used since 1538 after Paracelsus for 'air'.¹ Natural Gas is a gaseous fossil fuel consisting primarily of methane, but with minor quantities of ethane, propane, butane and pentane-heavy hydrocarbons.²

Natural Gas is gaining more and more ground as the 'preferred' conventional fossil fuel for the coming decades, due to its characteristically more efficient and cleaner combustion. It has yet to become the next most utilized fossil fuel, replacing oil.

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Aiming to strengthen the security of energy supply, to enhance energy self-sufficiency and to shield the country's geo-strategic role, systematic actions and plans in the hydrocarbon exploration sector have been developed in Cyprus since the past decade. Cyprus officially inaugurated its offshore exploration activities in 2006 with the acquisition of 2-D and some 3-D seismic data, followed by further 2-D seismic acquisition, and interpretation of the processed data. Two licensing rounds followed, in 2007 and 2012, which resulted in the granting of six offshore exploration licenses in total.

The discovery by Noble Energy of substantial quantities of natural gas offshore Cyprus at the end of 2011 constituted a historic development for the island and filled its people with feelings of optimism for the future. The favourable geological conditions offshore Cyprus and the outcomes from the activities of the nearby countries, which drilled for, discovered and produce oil and natural gas, are all encouraging factors for the future.

However, decisions on ways of how to develop the hydrocarbon resources located within the exclusive economic zone of Cyprus, and the ways to harvest the benefits from their exploitation to the maximum possible extent, are not straightforward. What is more, such decisions are complicated by the historically tensioned geopolitical setting of the Eastern Mediterranean region.

This *article* will unfold and discuss all the various interrelated issues regarding the topics on the fundamentals and characteristics of natural gas, the geopolitics, and the way forward for gas monetization, aiming to give firm and straightforward answers on the following:

- How did Cyprus reach this important milestone and which accomplishments have led to the very positive, and promising for the future, results, since its independence in 1960?
- How did Cyprus manage to successfully attract oil and gas companies for exploration?
- What should the targeted way forward in monetizing this divine resource be?
- What sort of infrastructure and commercial structure should be pursued for the monetization of the gas, and what are the risks involved?
- How important is the role of human resources and what measures should be taken towards empowering and educating people?

- What are the prospects for oil discoveries?
- How is bilateral or trilateral cooperation between Cyprus, Greece and Israel in the field of natural gas exploitation expected to unfold?
- What other countries in the East Mediterranean region could come into play?
- What is the role of geopolitics in general, and particularly in enhancing stability and restoring good relations between the states in the Eastern Mediterranean region?
- What should the next steps be towards gas exploitation and monetization?

A fact, that for sure sounds much more realistic today, is that one day the Eastern Mediterranean Region will develop to become a 'second North Sea', thus making it the fourth largest region in hydrocarbons production globally (after Russia, Qatar and the North Sea).

A. The Fundamentals and Characteristics of Natural Gas

Natural Gas, as the name suggests, is a naturally occurring hydrocarbon compound, usually found in the earth as a mineral resource. Natural gas is colorless and odorless (an artificial odor is purposely added to it in order to help detect leakages during pipeline transport), and is lighter than air.³

Natural Gas can be commercially produced from conventional, or unconventional, oil fields and natural gas fields. Other types of gas, however, also exist (see below figure⁴).

Figure 1: Town gas vs Biogas vs Landfill gas.

Town Gas is a mixture of methane and other gases, mainly the highly toxic carbon monoxide that can be used in a similar way to natural gas and can be produced by treating coal chemically.

Biogas is usually produced from agricultural waste materials, such as otherwise unusable parts of plants and manure. Biogas may also be produced by separating organic materials from waste that otherwise goes to landfills.

Landfill Gas is usually produced from waste material buried at landfill sites.

Natural gas is mainly composed of methane (see figure on the right⁵), of the *alkanes group*, which is the simplest hydrocarbon; yet being a fossil fuel it encompasses very many forms and uses today. Associated Gas, Non-Associated Gas, Gas hydrates, Coal Bed Methane (CBM), shale gas, tight sands, are some of its source forms known to date, while the use of natural gas has been extended, from power generation purposes, to petrochemicals production, heating/cooling, cooking and cogeneration of heat and electricity.

Figure 2: Typical natural gas components (methane is the primary component).

METHANE	C1
ETHANE	C2
PROPANE BUTANE	C3 C4
PENTANES & HEAVY FRACTIONS: Pentanes plus Natural gasoline Condensate	C5+
Water Nitrogen Helium	
CO₂ H₂S Mercury ...	

Gas was used from the 1820s in the Fredonia City of New York for lighting purposes.⁶ In Athens (Greece), the production of gas from coal (mainly lignite) began in the late 1850s, with the construction of gas production facilities in an area known as ‘Gas

Figure 3: The ‘Gas Works’ facilities.



Works⁷ (see photo on the right⁸). This gas was used for around 60 years in street lighting, while its use then extended to houses and factories,⁹ until the mid-1980s where gas production operations from coal ceased and gas production operations from naphtha began (naphtha was obtained from the crude oil refineries), followed finally by the commencing of natural gas imports from external suppliers in the late 1980s.¹⁰ Nowadays, apart from power

generation and lighting purposes, natural gas is even used in the houses for heating and cooking.

B. The Formation and Existence of Natural Gas

Natural Gas was created after millions of years of thermal anaerobic (i.e. in the absence of air) decomposition and compression of organic matter buried deeply underneath the earth's surface.¹¹

The five characteristics that are essential in order for a system of hydrocarbons to exist are as follows:

1. SOURCE ROCK (a deep rock within which hydrocarbons are formed/generated from its original organic matter)
2. MIGRATION (the movement of hydrocarbons from the source rock to the reservoir rock over time)
3. RESERVOIR ROCK (a porous, permeable sponge-like rock which retains the hydrocarbons in place)
4. TRAP (the overall geological structure within which hydrocarbons gather)
5. CAP ROCK (an impermeable seal which prevents the hydrocarbons to escape)

Hydrocarbon systems involve complex geological functions as described below¹² and as also shown in the diagram:¹³

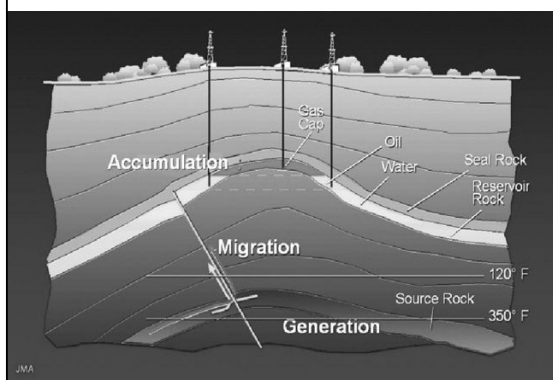
– Generation

- Oil and Gas are formed in Source Rocks

– Migration

- Oil and Gas move over time from the Source Rock to the Reservoir Rock

Figure 4: The functions of hydrocarbon systems.



- Reservoir Rocks have the following characteristics:
 - Porosity – to store oil and gas
 - Permeability – so that oil and gas may move through the reservoir rock

– Accumulation and Entrapment

- Oil and Gas are retained in Reservoir Rocks (sedimentary rocks such as limestone or sandstone), which are buried deep below the surface
- A geological trap halts the movement of oil and gas and allows accumulation of entrapped oil and gas

Natural Gas found deeply underneath the earth's surface can be either *Biogenic Gas* or *Thermogenic Gas*, depending on the actual mechanism by which the gas in place was originally formed.¹⁴

Biogenic gas formation is very identical to biogas generation and thus biogenic gas usually has very pure methane content, while thermogenic gas formation is an indirect consequence of kerogens generation (kerogens are derived from organic matter under conditions of high heat and pressure).¹⁵ The figure that follows provides a summary of the main characteristics of each formation mechanism.¹⁶

Natural gas can exist either as 'dry gas', which is pure methane, and 'wet gas', which is mainly methane together with heavier hydrocarbons in varying proportions.¹⁷

Biogenic Gas
<ul style="list-style-type: none">• Contains ≥ 99% methane• Produced as a direct consequence of anaerobic bacterial activity
Thermogenic Gas
<ul style="list-style-type: none">• Also known as Petrogenic Gas• Usually a mixture of ethane, propane and other light hydrocarbons including methane• These hydrocarbon gases are produced under conditions of high temperature and great pressure from kerogens (which are derived from organic matter)

The presence of inert components in natural gas, such as nitrogen and carbon dioxide, tends to reduce the calorific value of the gas. On the other hand, hydrogen sulfide, when present in natural gas, must be removed during initial processing because of its toxicity and corrosiveness. The presence of

hydrogen sulfide accounts for the 'sourness' of natural gas (natural gas with the absence of hydrogen sulfide is called 'sweet' gas), while the presence of significant quantities of acidic gasses, such as hydrogen sulfide or carbon dioxide, make the gas 'acidic'.¹⁸

Gas fields with an appreciable proportion of heavier hydrocarbons are known as *condensate* deposits ('condensates'). While wet natural gas and condensates are found near to, or in combination with, oil deposits, dry gas is usually found alone in individual gas fields. This is due to the fact that most of the dried natural gas derives from terrestrial plants.

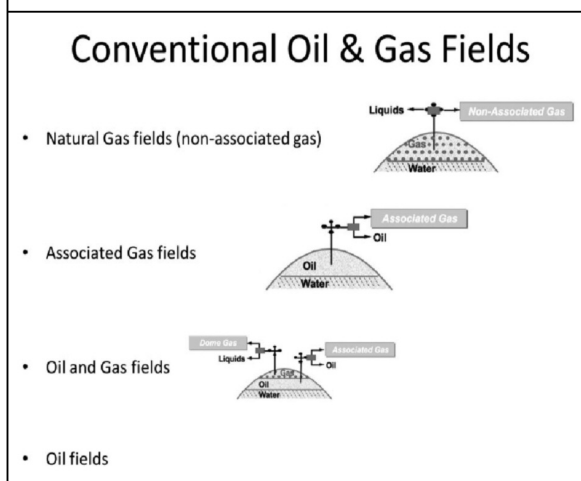
There is also a distinction between 'associated gas', which is natural gas associated with crude oil, and 'non-associated gas', which is generated individually (see figure on the right¹⁹).

In the case of 'associated gas', natural gas is dissolved in the crude oil and released during production due to the pressure relief (from a high pressure inside the underground reservoir to a lower pressure, close to atmospheric, at the surface). If crude oil is supersaturated, then part of the gas migrates upwards and forms a gas dome, which under certain conditions may be exploitable.

The main components of natural gas deposits are often related with crude oil, particularly as to their formation. Oil and gas are often found in the same geological strata of a region. 'Dry gas', which is mainly a product of carbonization, can also be found next to oilfields, as the majority of natural gas fields around the world is related with oil deposits.

The recovery of oil and gas from the hydrocarbon fields can be done through various mechanisms. In most cases, and for newly producing fields, the

Figure 6: Conventional Oil & Gas Fields - Configurations.



reservoir pressure causes the fluid (oil or gas) to rise to the surface when a borehole is drilled down to the Reservoir Rock. This reservoir pressure diminishes along with production and therefore, at some point, other methods (usually physical and chemical) must be used to recover the rest of the hydrocarbons in place (such methods can be fluid injection – water or CO₂, fracking, injection of chemicals etc.).

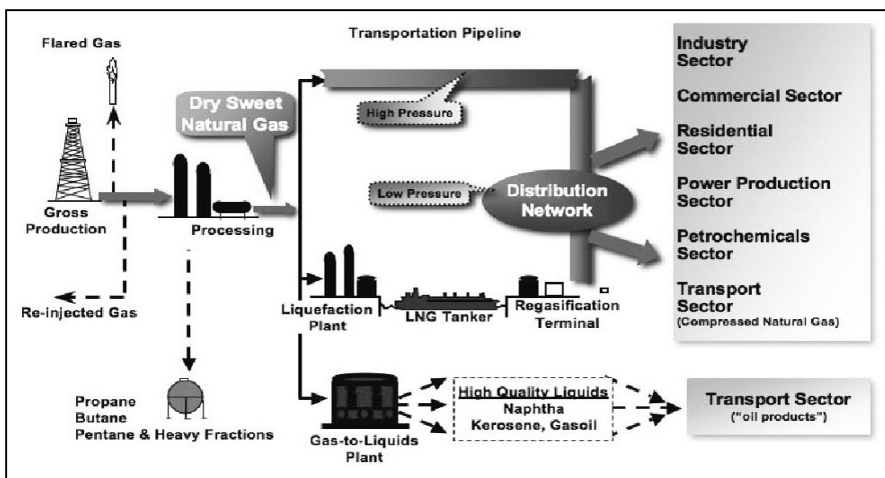
The portion of hydrocarbons that can be brought to the surface is called ‘recoverable’. The level of recoverable hydrocarbons depends on the physical properties of the reservoir and the recoverability is categorized by the probability of recovery – 10% for *Possible Reserves*, 50% for *Probable Reserves*, 90% for *Proved Reserves*.

C. The Importance and Marketing/Trading of Natural Gas

Natural Gas is gaining more and more ground as the ‘preferred’ conventional fossil fuel for the coming decades, due to its characteristically more efficient and cleaner combustion. It has yet to become the next most utilized fossil fuel, replacing oil. The whole (integrated) natural gas market *value chain* is shown in the figure right below.²⁰

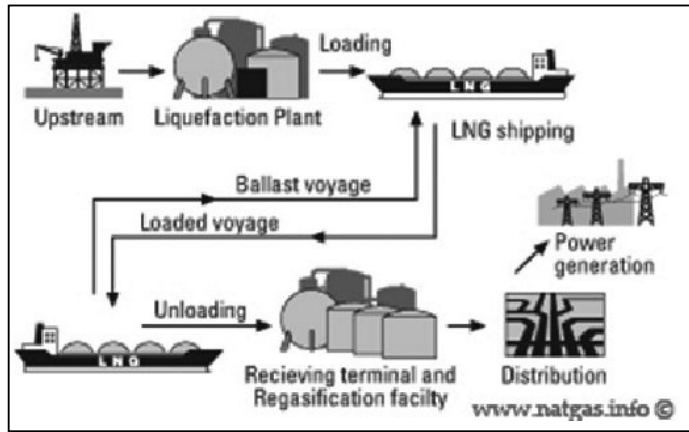
Although being a gas fuel rather than a liquid fuel (such as oil) makes it lighter, and therefore it has a low energy density, which in turn makes its

Figure 7: The natural gas market value chain.



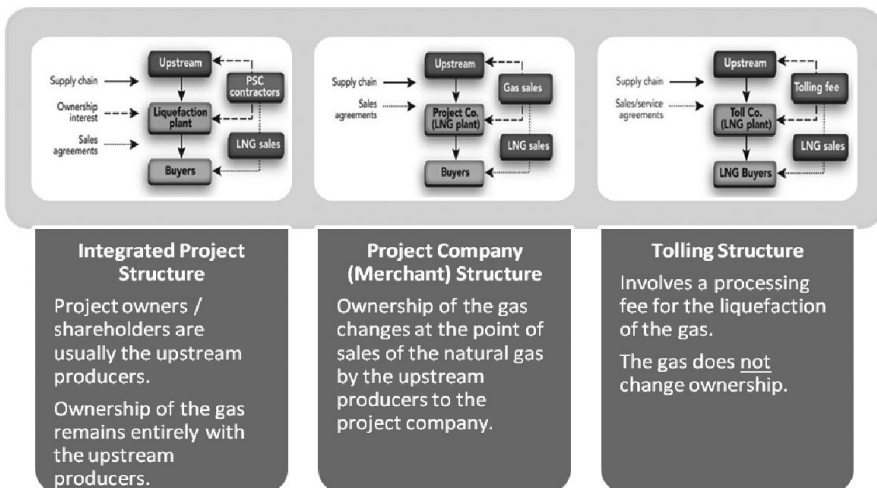
transportation and storage more costly per energy content as compared to oil, its distinct characteristics give to it many more advantages (in addition to the ones referred to above) – mainly versatility and robustness in its use, as well as safety and flexibility during its transport (this is especially true for LNG which is contained and transported at atmospheric pressure by special marine tankers).

Figure 8: The LNG chain.



Gas fields in remote areas are utilizable only if the market price makes the processing and export of natural gas economically feasible. A common concept (in the case of large volumes and large distances) is the liquefaction of natural

Figure 9: The three main commercial structure models for Liquefaction Plants.



gas to produce LNG (Liquefied Natural Gas) and its subsequent export by special marine tankers to consumer countries (the *LNG chain* is shown in the figure on the right²¹).

Three main commercial structures exist regarding a Liquefaction Plant and these govern the way that the project is set-up. These three main commercial models are presented below.²²

The participants in a Liquefaction Plant project may include any or a combination of the following (depending on the shareholding/ownership structure): Governments (either directly or through their National Oil Companies), International Oil Companies, Upstream producers, LNG off-takers, LNG operators, third party investors. In addition, there are other important parameters to consider when evaluating the financial viability of a Liquefaction Plant, such as the tolling fee (if tolling structure is chosen), shipping cost, gas netback price, inflations, capital costs, operating costs, LNG prices, financing plan, risks, commercial structure etc.

Crude oil, similar to gold and other goods, is traded today as a *commodity*, and is available through spot markets on a global basis. On the other hand, the spot price and trading of natural gas differs between regions and continents, while gas supplies (either in natural form or as LNG) are carried out through long-term Sales & Purchase Agreements (SPAs).

D. Ways of Utilizing and Monetizing Natural Gas

As mentioned previously, natural gas can have many uses – from large scale power generation and industrial cogeneration, to petrochemicals production and even to small scale domestic heating and cooking. The uses of natural gas by sector are as follows:

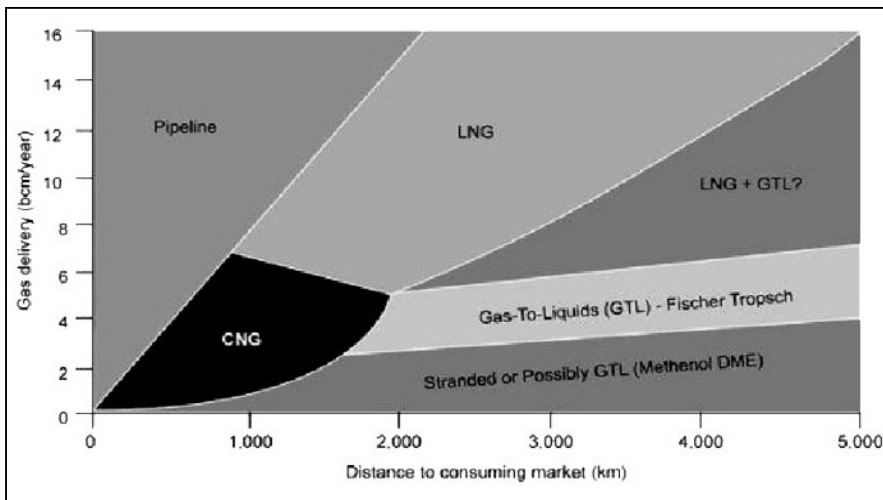
– Industrial Sector	– Commercial Sector
<ul style="list-style-type: none">○ Power generation○ Cogeneration of power and heat○ Heating○ Raw material for the production of petrochemicals (such as methanol, ammonia etc.)	<ul style="list-style-type: none">○ Central heating○ Heating/Cooling○ Hot water production

<p>– Transport Sector</p> <ul style="list-style-type: none"> ○ Cars ○ Trucks ○ Busses ○ Ships 	<p>– Domestic Sector</p> <ul style="list-style-type: none"> ○ Mainly for central heating and cooking
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In addition, natural gas can be monetized (exported) in very many ways, the main ones being the following (see also figure that follows²³):

- Liquefied Natural Gas (LNG)
 - Small-scale Liquefaction Plants (small-scale LNG)
 - Large Scale onshore Liquefaction Plants (LNG Plants)
 - Floating Liquefaction Plants (FLNG)
- Petrochemicals
 - Petrochemical Plants (using natural gas as a raw material for the production of petrochemical products and their subsequent export)
 - Natural Gas Liquids (NGLs)
- Gas-to-Liquids (GTL)
 - Pipeline CNG

Figure 10: Chart with monetizing options for natural gas fields.



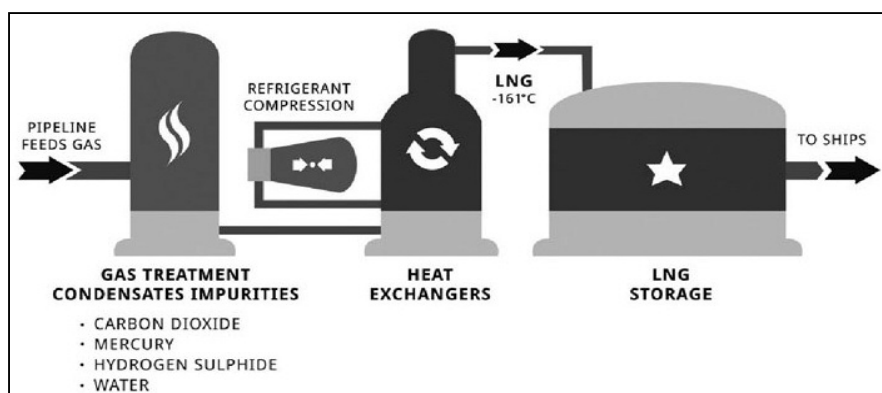
- Marine CNG (this technology is not yet commercially available)
- Electricity (using natural gas as a fuel for power generation and subsequently exporting the produced electricity).

E. Natural Gas Operations & Processes – Purification, Liquefaction, Regasification, Storage and Petrochemicals Production

Prior to any further use/processing, raw natural gas produced by the upstream oil/gas fields needs to be treated in order to purify it. This process occurs at a Gas Processing Plant (or Gas Plant as is also called) and mainly involves the separation of the gas from any water and condensates (i.e. heavy hydrocarbons, that have condensed out of the vapour phase during transport) using a three-phase separator followed by water treatment and condensate stabilization; the subsequent removal of any acidic or corrosive gasses by contacting the dry gas with *amine absorbers*; its drying using *glycol dehydration towers* to remove any water vapour in solution with the gas; and finally the removal of the natural gas liquids through cooling/expanding the gas, and *fractionation* of the liquids in a series of distillation columns to purify each NGL and the methane gas.

Liquefied Natural Gas (LNG) is natural gas (predominantly methane) that has been converted into liquid form for ease of storage and transport,²⁴ by cooling it down to -161°C, through a series of *refrigeration cycles*. LNG is an odourless, colourless, non-toxic and non-corrosive liquid that can float on water (i.e. it is less dense than water).²⁵ LNG has the great advantage that it takes up about 1/600th of the volume of natural gas in the gaseous state;²⁶ therefore it can be stored and transported over long distances and in large volumes more practically and economically. The main stages that take place in a liquefaction plant for the production of LNG are as follows (see also figure that follows²⁷):

1. Pre-treatment (to remove impurities and water)
2. Pre-cooling (to remove any condensates)
3. Liquefaction (by a series of refrigeration cycles to liquefy the gas)
4. Storage (maintain the LNG until needed) and loading onto LNG carriers (to transport/export the LNG)

Figure 11: The Natural Gas liquefaction process.

Following regasification at a Regas Terminal, LNG is converted back to natural gas and fed into the *transmission system* (for delivery to the power generation plants and other large industrial units), and then into the *distribution network* (for distribution to the commercial, domestic and transport sectors). The main steps that take place at a Regas Terminal are as follows:

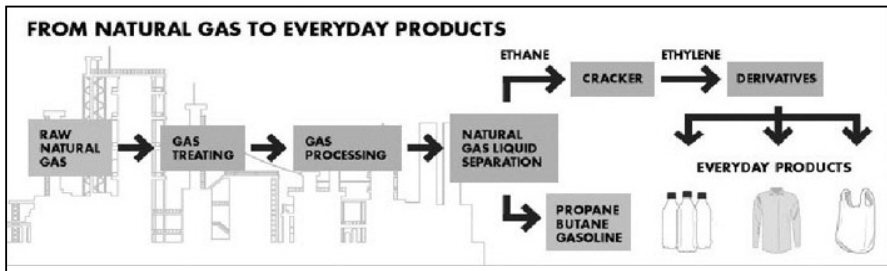
1. Storage (maintain the LNG until needed)
2. Pumping the LNG out of the tanks and into the gas send-out system
3. Passing the LNG through a re-condenser unit (to liquefy any boil-off gas collected from LNG vaporizing inside the tanks; thus balancing the process)
4. Pumping the LNG through a series of heat exchangers (usually Open Rack Vaporizers – ORVs, which use seawater as the heating medium) to vaporize it back to gas and heat it up to atmospheric temperature
5. Compressing the gas and feeding it to the transmission system

Gas consumption, in most cases, is not regular throughout the year, and thus storage of gas is therefore essential in order to enable matching of supply with demand. Natural gas can be temporarily stored in its natural form (as an artificial gas deposit) in natural underground reservoirs, such as *depleted gas* reservoirs, *aquifer* reservoirs, and *salt cavern* reservoirs. Alternatively, natural gas can be stored in its liquid form (i.e. as LNG) in so called *full containment tanks*, but in this case it will need to be liquefied before storage and regasified before use.

Petrochemicals are produced in Petrochemical Plants through a series of processes (chemical reactions and purification methods) that turn the feedstock (natural gas) into chemical or fuel products (petrochemicals). Most final products can be produced directly or indirectly from their preceding compounds (see figure below²⁸).

The most important petrochemicals are:

Figure 12: The petrochemicals production process.



- Lower or lighter alkenes (olefins): e.g. ethylene, propylene and butadiene
- Aromatics: benzene, toluene, xylene, dimethyl ether (DME)
- Ammonia, methanol, synthesis gas (Carbon Monoxide - CO & Hydrogen - H₂)

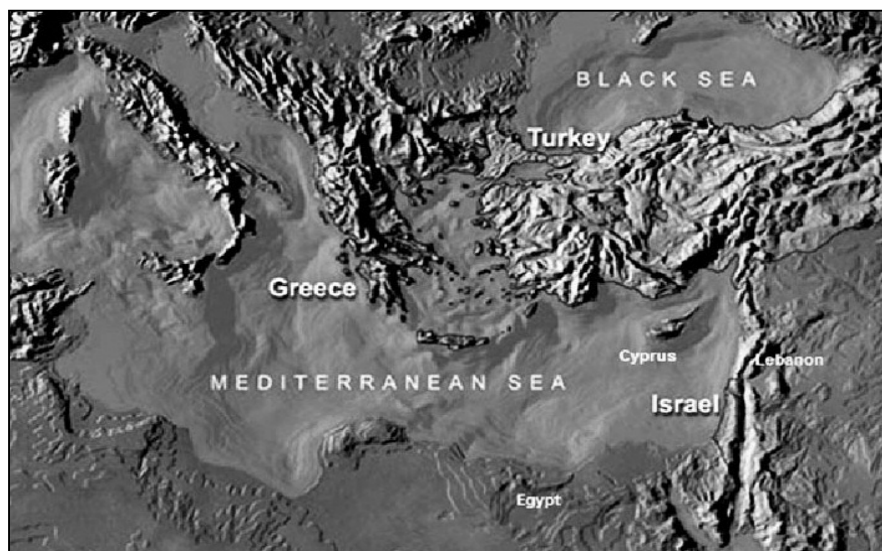
Alternatively, natural gas can be converted into liquid products via a process called Gas to Liquids (GTL); these liquid products, together with the NGLs recovered from the initial processing and the liquefaction of the gas, can be used as fuels, mainly for the transportation sector.

F. The Geopolitics of Natural Gas in the Eastern Mediterranean Region

The Eastern Mediterranean Region (map shown in the picture that follows²⁹) has been a hydrocarbons producer for many decades. Especially in Egypt, but also in Israel (although at a much lower level and only for gas), hydrocarbon production facilities have been in operation for many years.

Moreover, Palestine has an offshore gas field located at 30km off the coast of the Gaza Strip, pending development.

Figure 13: Map of the Eastern Mediterranean Region.



Cyprus only joined lately, with many ongoing hydrocarbon exploration activities, while Lebanon is moving with the necessary steps towards the launching of hydrocarbon exploration activities in its EEZ.

Greece, which has been producing oil for some years, seems to be now following Cyprus' model and is also expected to launch a new round of hydrocarbon exploration and exploitation activities within its EEZ, following a successful 'open door' procedure for three areas with promising geological prospects for hydrocarbons.

From the above mentioned facts, it can be deduced that currently, the three main players in the region are Cyprus, Greece and Israel. A trilateral regional cooperation between these three states regarding hydrocarbon development and exploitation can therefore be of a great benefit for the Eastern Mediterranean Region discoveries. Such cooperation can also set the baseline, for a future extension towards Egypt, Lebanon and possibly Palestine, which also have an important role to play in the Eastern Mediterranean Region. Overall, the Eastern Mediterranean Region presents many opportunities, in parallel with some challenges, which can be offset as the facts today reveal (see figure below).

G. The Role of Israeli Natural Gas in the Eastern Mediterranean Region

Figure 14: Opportunities, Challenges and Facts for the Eastern Mediterranean Region.

Opportunities	Challenges	Facts
<ul style="list-style-type: none"> • Promising regional geological background • Big hydrocarbon discoveries in the region • Many attractive major "plays" have been identified • Market with large potential for oil and gas trading • Located at the crossroads of international energy routes 	<ul style="list-style-type: none"> • Historically tensioned geopolitical setting • Unstable political scene • Deep & Ultra Deep Operations 	<ul style="list-style-type: none"> • Hydrocarbon activities can serve as a catalyst towards cooperation and stability in the region • New deep water technologies decrease the risk of the oil companies • High oil prices and increased gas demand secure the commerciality of the hydrocarbon discoveries

Israel discovered substantial quantities of natural gas within its Exclusive Economic Zone (EEZ). In the last six years, a series of successful exploration wells offshore Israel has resulted in the discovery of approximately 35 trillion cubic feet (tcf) of gas resources (see figure on the right³⁰).

Gas production from the Tamar field (10 tcf of gas

resources) began in March 2013, just over four years from its discovery. The target for initial production from the Leviathan field (reserves estimate was increased in 2013 to 21.93 tcf, or 620 billion cubic metres, from 18.91 tcf) is 2017.³¹

The Israeli Government has already reached a decision to export 40% of its current gas resources as reported above.

Part of Israel's gas resources will be utilized for domestic market needs (Israeli domestic demand growth expectation has increased to 17%). On the gas export side, various regional market opportunities are being evaluated by Noble Energy

Figure 15: Gas Fields discovered offshore Israel.

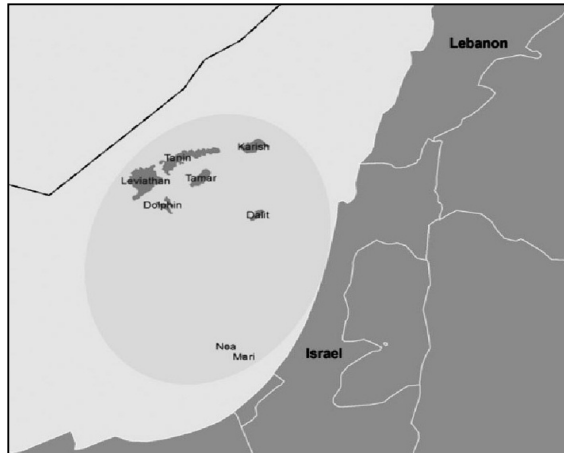
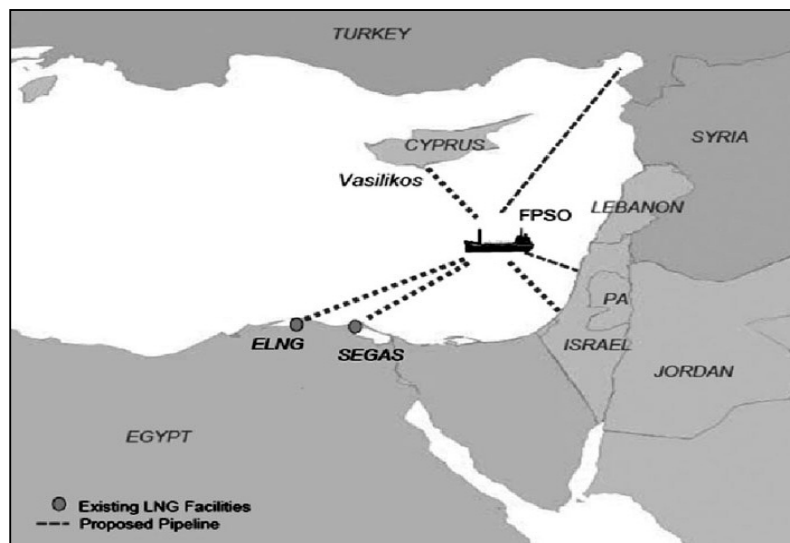


Figure 16: Regional Market Opportunities evaluated by Noble Energy.



Inc.; these include the following options³² (see also figure on the right³³):

- power and industrial needs in Jordan
- existing liquefaction facilities in Egypt
- domestic market in Cyprus
- liquefaction plant in Cyprus
- floating LNG
- pipeline to Turkey.

H. The Role of Greece in the Eastern Mediterranean Region

Between the 1960s and mid-1970s, around 40 exploration drillings took place by various international companies in both onshore and offshore locations in Greece. As a result, oil and gas were discovered in two different fields, offshore Greece.³⁴ Various other exploration attempts followed (both seismic exploration and exploration drilling), leading to the discovery of oil in the offshore Katakolo area in North-West Peloponnese, gas in Epanomi, an area adjacent to Thessaloniki in Northern Greece, and, in some instances, biogenic gas accumulations.³⁵

There has been a 15 year break in hydrocarbon exploration in Greece, since most seismic data acquisition and drilling occurred between 1977 and 1987. This activity identified some plays, drilling made one discovery and several wells with shows, but nothing commercial was then revealed.³⁶

In 1996 the first International Licensing Round, involving 6 concession areas, was carried out, and as a result, 4 licenses were finally granted for the areas in North-West Peloponnese and Ioannina to Enterprise Oil and for the areas of Aitolokarnania and offshore Western Patraikos Gulf to Triton Ltd.³⁷ The surveys within these areas failed to deliver results and well drilling did not reach the depth envisaged by the original agreements.³⁸

In 2012/2013, PGS acquired MultiClient 2-D (MC2D) seismic data in the Western and Southern Greece for the Hellenic

Figure 17: Seismic data acquisition lines from the PGS survey in Greece in 2012/2013.

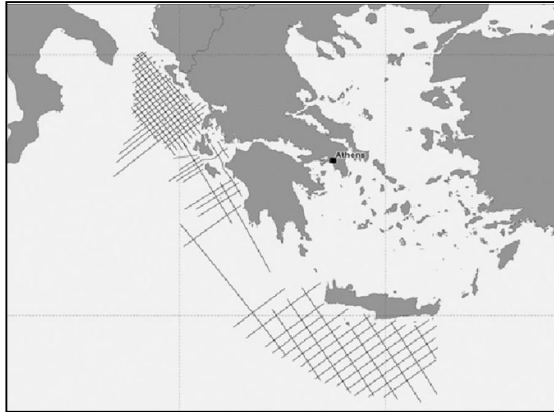
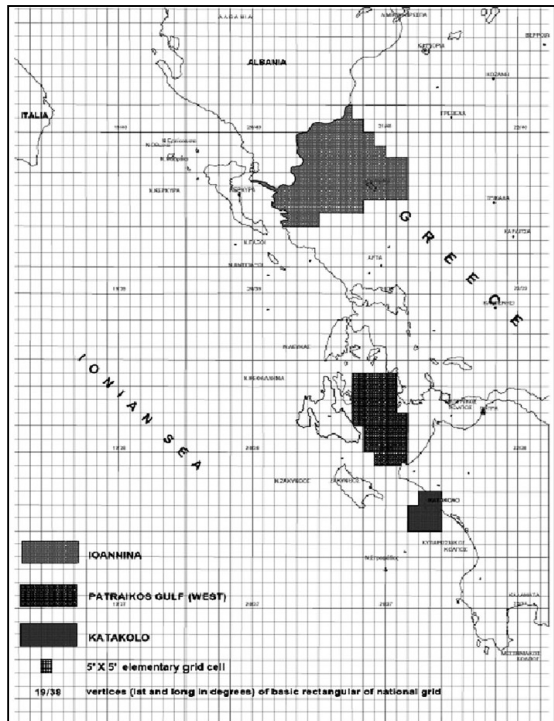


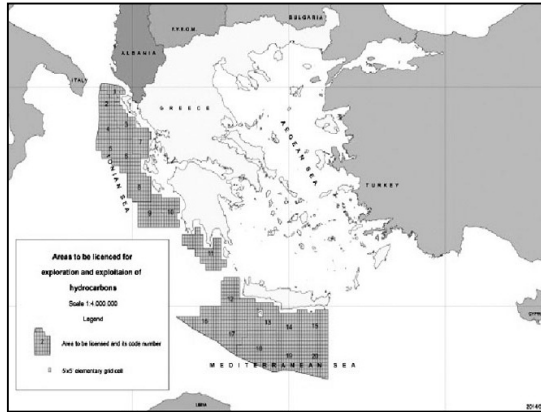
Figure 18: Areas offered through the ‘open door’ procedure in Greece.



Republic (Ministry of Environment, Energy and Climate Change).

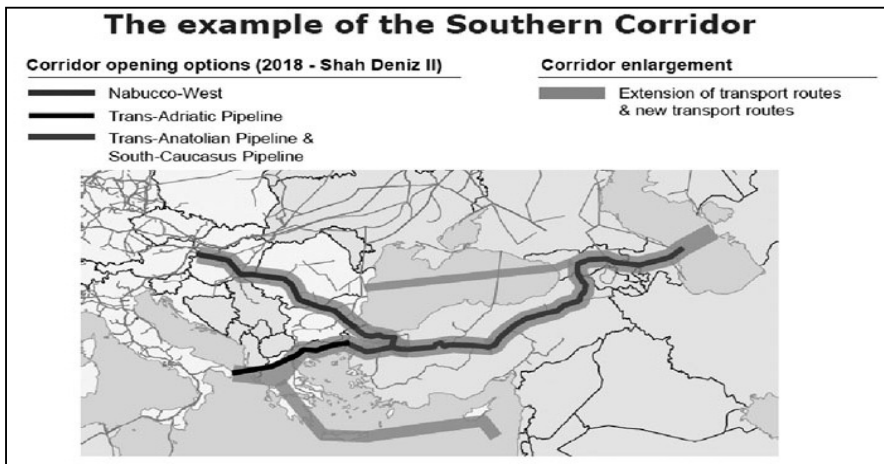
The program comprised of 12,500km new data acquisition using *GeoStreamer* technology, with 6,000km vintage data re-processing that was combined into a regional interpretation.³⁹ The seismic data acquisition (see previous figure),⁴⁰ which also included marine gravity and magnetic data acquisition, was completed within 2013 and the full processing of the data was completed in early January 2014.⁴¹

Figure 19: Map with Offshore Blocks on offer in Greece.



Regarding the ‘open door’ procedure, which was launched in 2012, the Greek Government granted three concession agreements in May 2014 (after around 29 months of evaluation of the proposals received), for the areas of offshore Katakolo, offshore Patraikos Gulf (West) and onshore Ioannina (see figure on the right⁴²).

Figure 20: The proposed European Southern Corridor.



Following the great success during a special information and promotion event held in London in early July 2014 and the interest shown by international oil and gas companies, a second International Licensing Round was launched on the 31st of July 2014, with 20 offshore exploration blocks on offer in the Ionian Sea and the area south and west of Crete (see map below).⁴³ In addition, an Individual Express of Interest was announced regarding 3 onshore areas in Western Greece.⁴⁴

I. Bilateral Projects of Common Interest between Cyprus and Greece

Cyprus and Greece are both included in the European Southern Corridor for Gas and Electricity, with two jointly proposed projects of common interest. Through these bilateral projects of common interest of the Southern Corridor, Greece can become a major transit country for the supply of Eastern Mediterranean gas to Europe.

In addition, through these projects, Cyprus can have the role of a central and integrated energy hub for gas exports from the Eastern Mediterranean Region to both Europe and the Far East.

Figure 21: Bilateral projects of common interest between Cyprus and Greece.



The example of the European Southern Corridor is shown in the figure that follows.⁴⁵

The two bilateral projects jointly submitted within the context of the Southern Corridor by Cyprus and Greece (see figure that follows⁴⁶), are the *EuroAsia Interconnector*, a submarine cable for transmission of electricity between Israel - Cyprus - Crete - Greece (mainland), and the *Trans-Med / East-Med Gas Pipeline*, a subsea gas transmission pipeline between the Levantine (offshore)-Cyprus-Crete-Greece (mainland). Both projects can provide diversification and additional means for hydrocarbon exploitation. In addition, the *EuroAsia Interconnector* project could provide an 'interim solution' to Cyprus and security of energy supply to Cyprus, Greece and Israel.

Figure 22: Map showing existing discoveries in Egypt-oil and gas.



J. The Facts about Egypt and Lebanon

Egypt had proven gas reserves of 65.2 trillion cubic feet (tcf) at the end of 2013.⁴⁷ The map on the right shows the locations of the existing oil and gas discoveries in Egypt.⁴⁸

The total gas production from all Egyptian fields during the year 2012 reached 2.27 tcf. However, due to the increased internal consumption, the two liquefaction plants (namely Damietta & Idku LNG Plants) have been idled. In addition, there was a continuous political instability in the country, which in turn seems to have discouraged investments in oil and gas activities.

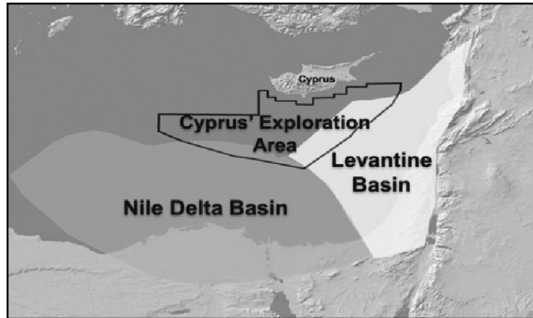
The newly inaugurated Government is hoped to restore political and social stability in the country, but still more investments will be needed for the oil and gas industry in Egypt to flourish once again.

As far as Lebanon is concerned, it is worth highlighting the following statement made in 2013 by the Lebanese Minister of Energy: “Preliminary surveys of Lebanese offshore fields show reserves of 30 tcf of natural gas and 660 million bbl of oil”.⁴⁹ The launching of the 1st Licensing Round offshore Lebanon is expected by the end of 2014, while there has been a large interest from international oil companies who have bought the relevant seismic data.

K. Hydrocarbon Prospectivity in the Eastern Mediterranean Region

According to the USGS 2010 estimates, the Nile Delta Basin had 1.76 billion bbl of undiscovered oil and 223 tcf of undiscovered natural gas reserves, while the Levantine Basin had 1.68 billion bbl of undiscovered oil and 122 tcf of undiscovered natural gas reserves⁵⁰ (geological regions shown in the map below).

Figure 23: The Nile Delta Basin and the Levantine Basin.



Updated Noble Energy Inc. estimates (announced as highlights of the 2013 Analyst Conference held in Houston, Texas on Dec 17, 2013):⁵¹

In the Eastern Mediterranean, discovered gross resources have grown to approximately 40 trillion cubic feet of natural gas.... Significant exploration potential remains on the Company's acreage position in the Eastern Mediterranean, with approximately 3 billion barrels of gross unrisked oil potential in the deep Mesozoic play in both Cyprus and Israel and four trillion cubic feet gross of natural gas potential in Cyprus. Current plans are to resume exploration drilling in the Eastern Mediterranean in late 2014 or early 2015.

L. The Historical Case of Cyprus in Hydrocarbon Exploration

Early onshore hydrocarbon exploration attempts in Cyprus have been carried out by various foreign companies between the period of 1938 and 1970.

Between 1938 and 1949, a series of onshore geophysical surveys were carried out, while for the rest of the period up to 1970 various onshore exploration wells have been drilled between long time intervals.⁵² These efforts had no success in finding oil or gas, and were followed in 1975 by an 8,000 km 2-D offshore seismic survey in the Eastern Mediterranean conducted by Sefel Geophysical Ltd (in collaboration with Delta Exploration Inc.) and in 1985-1987 by studies on the seabed bathymetry, stratigraphy, lithology, sediments etc. led by the Soviet Academy of Sciences (in collaboration with the Geological Survey Department of Cyprus).⁵³

In 1999, Spectrum Energy & Information Technology Ltd carried out a study on the seismic lines and reprocessed the seismic data acquired in 1975 by Sefel Geophysical Ltd, while in 2000 the same company conducted an offshore 2-D seismic survey of 12,300 line-km in the greater South-Eastern Mediterranean region.⁵⁴

Cyprus, exercising its sovereign rights, as derived from the United Nations Convention on the Law of the Sea (UNCLOS '82), has signed in 2003 its first agreement regarding the delimitation of the exclusive economic zone with the Arab Republic of Egypt. Likewise, agreements with the Republic of Lebanon and the State of Israel followed in 2007 and 2010, respectively (see figure on the right⁵⁵).

Such actions were of paramount importance in attracting oil and gas companies to invest in the exploration activities offshore Cyprus, as well as for strengthening further the ties of good cooperation with the neighbouring countries of Cyprus, especially Israel, but also Lebanon and Egypt.

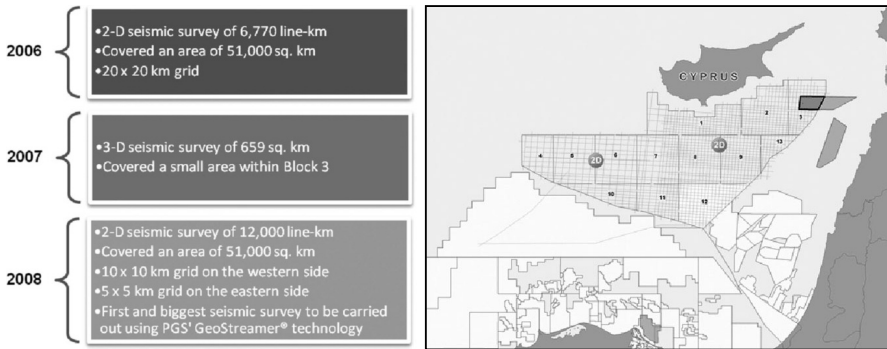
Cyprus officially inaugurated its offshore exploration activities in 2006 with the acquisition of 2-D and some 3-D seismic data, followed by further 2-D seismic data acquisition in 2008, and subsequent interpretation of the processed

Figure 24: Exclusive Economic Zones' Median Lines between Cyprus and Egypt, Lebanon, Israel.



data (see details that follow, on modern seismic surveys conducted by PGS offshore Cyprus⁵⁶). These seismic surveys were the basis for the preparation of the relevant seismic data interpretation reports that followed each survey and accompanied the seismic data set that was acquired.

Figure 25: Seismic surveys acquired offshore Cyprus by PGS between 2006 and 2008, and relevant grid map showing these seismic surveys.



In early 2007, Cyprus proceeded with its first hydrocarbon licensing round with a total of eleven offshore blocks on offer, attracting three applications from two applicants. Within this context, one hydrocarbon exploration license was awarded, following negotiations, to Noble Energy International on 24 October 2008, for Block 12 (a relevant Production Sharing Contract was also signed on that date). Following all the necessary preparatory work and data assessment, Noble Energy International proceeded with drilling its first exploratory well in September 2011.

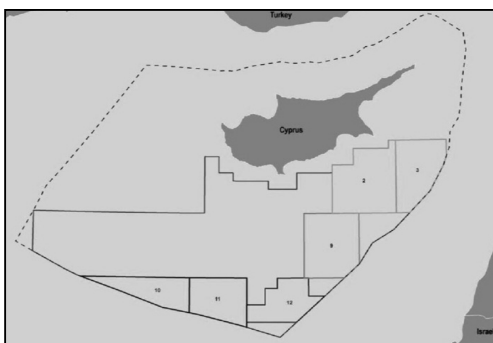
The breakthrough for Cyprus came in December 2011 when Noble Energy announced, after the first exploration well, that a discovery of natural gas (7 tcf gross mean estimated resources) had been made in Cyprus' exclusive economic zone Block 12 (the deposit was named 'Aphrodite'). The appraisal well of that discovery that followed in 2013 resulted in an updated estimate of approximately 5 tcf mean gross resources of natural gas. The results that will derive from the evaluation of the data in 'Ishai' (an area adjacent to Block 12, within the Israeli EEZ), obtained from an exploration well drilled in early 2013, will determine Noble Energy's next steps which are required for further appraisal of the gas discovery. Regardless of the procedure needed for

declaring commerciality of the gas deposits in the ‘Aphrodite’ discovery, Noble Energy estimates that production can commence within 38 months from the *final investment decision*. Additionally, Noble Energy is currently planning to explore other promising geological formations within Block 12, with a substantial possibility for new discoveries.

The success in Block 12, in addition to the clear and transparent regime that was established in full harmonization with the relevant European Directives, caught the attention of the international oil and gas companies around the globe and created a huge interest in Cyprus’ second hydrocarbon licensing round held in 2012, with 33 applications from 15 companies/consortia. After evaluation of the applications submitted, a hydrocarbon exploration license for each one of the Blocks 2, 3 and 9 was granted to Eni/Kogas on the 24th of January 2013, while on the 6th of February 2013, a hydrocarbon exploration license was awarded to Total, for each one of the Blocks 10 and 11 (see relevant map with licensed blocks, on the right⁵⁷).

Relevant Exploration and Production Sharing Contracts (EPSCs) were also signed with the two abovementioned licensees, for each one of the awarded blocks. Through these contracts, the two licensees are committed to execute an ‘aggressive’ exploration work program for each one of the awarded blocks, acquiring a large amount of geophysical data and drilling at least six exploration wells in total during the first three years.

Figure 26: Licensed blocks for Hydrocarbon Exploration offshore Cyprus.



M. The Role of Cyprus in the Eastern Mediterranean Region

The abovementioned developments testify that the oil & gas sector can be a new booming industry in Cyprus, as the country has already attracted worldwide attention and serious international investment prospects exist. The discovery of substantial quantities of natural gas, in combination with the potential utilization of other gas deposits and future gas findings in the area,

opens up new perspectives and new impetus to the role of Cyprus in the global energy map and the European energy market.

To fully grasp this great opportunity, Cyprus still needs to swiftly proceed with the planning and development of the energy infrastructure and facilities required for the exploitation of natural gas reserves, such as the construction of the subsea gas pipeline for the transfer of natural gas to the Cyprus shore, in parallel with the establishment of a natural gas liquefaction plant for the production and subsequent export of LNG (see relevant sketch on the right⁵⁸).

Figure 27: Artist's impression of the Vasilikos LNG Plant.



Such an initiative by Cyprus, which is a member of the European Union strategically located in the Eastern Mediterranean Region, can significantly contribute to the efforts towards establishing secure natural gas resources and diversified energy corridors for the EU and beyond. Once Cyprus is successful in establishing the necessary infrastructure in the region for hydrocarbons operations and exports, this will then stimulate additional oil and gas exploration and production activities across the Eastern Mediterranean, leading to the evolution of the oil and gas industry in the area.

The construction of the Cyprus LNG Plant will be by far the largest investment in the island's history and can therefore constitute the key driver for the development and monetization of Cyprus' offshore gas resources, offering flexibility and reliability in the options for the marketing of the gas. No doubt, this large energy infrastructure will upgrade the geostrategic role of Cyprus in the Eastern Mediterranean Region. In addition, this huge development will yield a great benefit to the Cypriot economy and industry, and generate a significant amount of new job positions, business opportunities and revenue, stimulating at the same time the rapid technological development within the manufacturing sector, as well as the development of new industries

such as the production of petrochemicals. The LNG facility, which can be in operation as early as 2020 (provided that the relevant activities for the project resume on a faster pace), can open up the possibility for Cyprus to become a major energy hub – able of handling natural gas from its own fields, as well as from adjacent offshore gas discoveries of the neighbouring countries.

As with every project, however, there is always a level of risk involved, which will have to be managed effectively according to each particular case (as presented in the table that follows).

Table 1: Risks associated generally with oil and gas projects.

Type of Risk	Main Comments
<i>Political Risk</i>	<ul style="list-style-type: none"> • Commonly exists for all projects across the world. • Difficult to predict or manage.
<i>Permitting Risk</i> (i.e. obtaining all licenses on time)	<ul style="list-style-type: none"> • Very important as it affects the on-time and on-cost delivery of a project.
<i>Scheduling Risk</i> (i.e. completing all related projects on time)	<ul style="list-style-type: none"> • Project schedule has an impact on the competitiveness of the export infrastructure against similar projects in other countries all over the world. • This is considered as the most critical risk since it can affect project commerciality.
<i>Safety</i> (refers to Health and Safety issues rather than security issues, which formulate a different kind of risk)	<ul style="list-style-type: none"> • Safety can compromise the productivity and the schedule of any project at any time. • Particularly important during the construction and operation phases.
<i>Investment Risk</i>	<ul style="list-style-type: none"> • Common for every project. • The greater the risk, the greater the return (or loss). • Without investing, no returns should be expected.
<i>Construction Risk</i> (i.e. inadequacy of materials/workforce)	<ul style="list-style-type: none"> • Human resources are crucial for the successful and on-time completion of a project. • Local experienced human resources in specialized sectors (such as the oil & gas sector and the petrochemicals industry) are very limited at the moment in Cyprus.
<i>Public acceptance</i> (i.e. acceptance of a project by the public or a community)	<ul style="list-style-type: none"> • No project can be implemented and no development can take place unless it has the 'green light' from the affected communities.
<i>Third Party Stakeholders</i> (i.e. involvement of third parties in a project)	<ul style="list-style-type: none"> • Third parties can prove useful and important for a successful project, but at the same time they can introduce complexity and delays.
<i>Security Risk</i> (refers to mainly actions of sabotage, criminal acts, vandalism, external threats and terrorist attacks, including cyber-attacks)	<ul style="list-style-type: none"> • A very real and unpredictable risk/thread. • Can cause severe physical damage to a project (whether under development or in operation)

The needs in human resources for certain specializations/disciplines for large projects in oil and gas in Cyprus were first recognized in 2006. Since then, various activities unfolded towards empowering and educating people, through training programmes in the technical and managerial professions of the oil and gas industry (a timeline of related events is presented in the table below⁵⁹).

Table 2: Timeline of related events in the education and training of human resources in Oil & Gas matters.

Year	Main Event(s)
Mid 2011	<ul style="list-style-type: none"> Commencing of training programmes and educational material offered by the Energy Service (Ministry of Energy, Commerce, Industry and Tourism) regarding the oil and gas sector and energy in general.
Late 2012	<ul style="list-style-type: none"> Completion of the Study of the Cyprus Human Resources Development Authority (HRDA) on the early identification of needs for employment and training for effective management of natural gas in Cyprus.
2012/2013	<ul style="list-style-type: none"> Various academic institutions in Cyprus began to offer a series of degrees in the oil and gas sector.
Early 2013	<ul style="list-style-type: none"> Noble Energy completed a study on the local content (labour) requirements for the Cyprus LNG Project (construction phase and operational phase).
Late 2013	<ul style="list-style-type: none"> A new, two-year long, Professional Diploma in Oil & Gas was established. This programme was specifically designed to educate and train students in professions related to the technology, practices, processes and operations employed in the oil and gas sector, thus preparing them for becoming skilled blue-collar workers, such as mechanical engineering technicians, electrical engineering technicians, welders and drilling engineers. The objective is to produce well trained and qualified personnel able to be employed in the technical roles within the petrochemical and oil & gas industries.

N. EU Demand and Supply Facts & Projections

Concerning gas production, consumption and supply within the European Union, the following facts can be noted:⁶⁰

- The share of fossil fuels in the energy mix fell to 77% in 2013, a record low, while renewables reached a record high of 6.6%.
- The consumption of natural gas declined in 2013 by 5.4 Mtoe (1.1%).
- Production of natural gas also declined in 2013 by 1.0 Mtoe (0.5%).
- With fossil fuel consumption declining faster than production, the EU's

fossil fuel imports fell by 0.6% to 921.6 Mtoe in 2013, the lowest level in a decade.

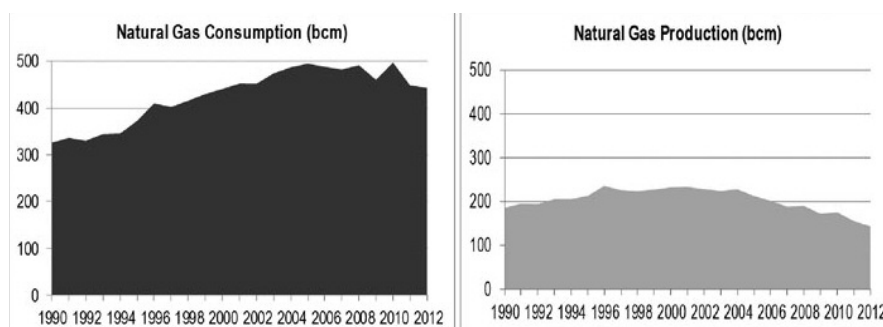
- The EU's natural gas imports continued to shift from LNG towards pipeline with net LNG imports in 2013 down by 29.7% and net pipeline imports in 2013 up by 3.7%.

The Proven Gas Reserves of the main gas producing countries of the European Union (i.e. Denmark, Germany, Italy, Netherlands, Poland, Romania, and United Kingdom) at the end of 2013 were around almost 52 tcf, while those of Norway alone were 72.4 tcf.⁶¹

The following time-trends also hold regarding gas production and consumption within the European Union⁶² (see also charts that follow⁶³):

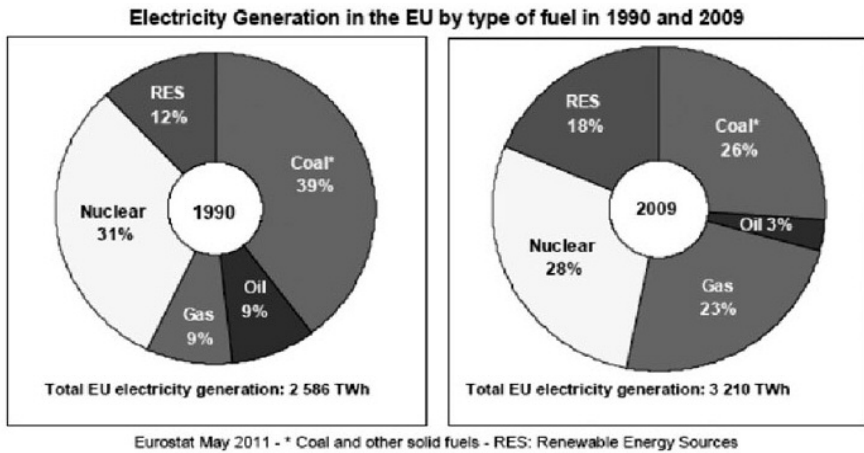
- 1.3% mean annual increase in natural gas demand for 2000-2010 (the European Union is a mature market, focused mainly on energy efficiency & RES).
- Declining trend in natural gas production: 3.3% mean annual decrease during the last decade (mainly due to the gradual depletion of North Sea gas fields).

Figure 28: EU Natural Gas Consumption and Production figures.



Natural Gas however, still remains as an important fuel with a relatively high share in power generation. Around 25% of the electricity generated comes from the combustion of natural gas. There is also a significant increase of natural gas share in the electricity generation noted in the last years (see figure below⁶⁴).

Figure 29: EU Electricity Generation by type of fuel.



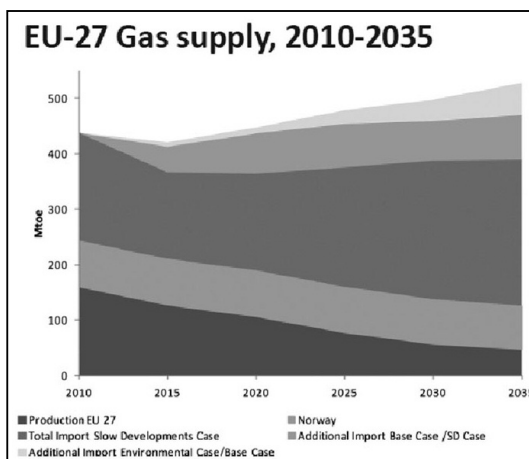
On the gas demand and supply within the European Union, the following projections have been made.⁶⁵

- Energy demand in the EU has peaked and is expected to fall by 6% by 2035.
- Demand for fossil fuels will decline in 2035 by 19% with losses in oil (-27%) and coal (-53%), and overwhelming gains in natural gas (+17%).
- Fossil fuels will account for only 67% of EU's energy consumption in 2035, down from 77% in 2013.
- Power demand will rise by 9% with renewables increasing their share from 13% to 34% in 2035, matching that of fossil fuels. Gas will however overtake coal in 2028.
- Given similar declines in both production and consumption, import dependency will remain relatively constant at around 55% up to 2035.
- The EU will be overtaken by China as the world's largest energy importing region in 2030, but it will remain the largest net importer of natural gas.
- Production of natural gas will decline in the EU by 2035 by 46%.
- Imports of gas will rise by 49% by 2035, while imports of oil (-23%) and coal (-49%) will decline. The EU's gas import dependency will rise from 66% to 84% by 2035.

The following main trends, as recorded today, are expected to project to 2035 (see also chart on the right⁶⁶):

Figure 30: EU Gas Supply projections to 2035.

- Gas production in the EU is declining (and so do the imports from Norway).
- At the same time, the demand for additional (external) gas imports is rising (this trend will become even stronger as an outcome of the restriction on the use of coal).
- The share of natural gas in EU's primary energy consumption will remain high (i.e. mainly for power generation purposes).
- The exploitation of shale gas within the EU raises a number of concerns as regards possible environmental impacts (in addition to being more challenging than conventional gas sources), and thus is not expected to affect the gas production or import figures.



Conclusions

The discovery of substantial quantities of natural gas offshore Cyprus by Noble Energy at the end of 2011 constituted a historic development for the island and filled its people with feelings of optimism for the future. For the Republic of Cyprus, whose economy was being dominated for many years by the financial services and tourism sector, and whose prospects have been overshadowed by the enforcement of various austerity measures as a consequence of the global economic crisis, the existence of natural gas reserves (without excluding the possibility of oil discoveries) offers a path out of the vicious circle and back to prosperity.

However, decisions on how to develop the hydrocarbon resources located within the exclusive economic zone of Cyprus and the ways to harvest the

benefits from their exploitation to the maximum extent are not straightforward. What is more, such decisions are complicated by the historically tensioned geopolitical setting of the Eastern Mediterranean Region.

Cyprus remains to this day an isolated 'energy island' since it has no interconnections with the trans-European electricity or gas networks, neither the necessary infrastructure to be able to take part in the single European energy market. This sets an additional burden on the competitiveness of the local enterprises, the economic balance and the cost of life in general.

The visit in Cyprus and subsequent statements of the Vice-President of the United States of America, the inauguration of the new Egyptian Government, the continuous and strong interest of Israel in natural gas exports through Cyprus, the aggressive exploration activities by Eni, the presence of a global oil & gas firm like Total in Cyprus, the strengthening of the relations with Lebanon, the common efforts between Cyprus and Greece, and the prospects for large oil findings in the region, are just some of the signs highlighting that everything is moving towards the beginning of the 'hydrocarbons era' in Cyprus, and the booming of the hydrocarbons industry in the Eastern Mediterranean Region.

The world economy has been in turmoil for the past five years and this had a very negative impact on the economies of certain European countries in particular, especially those of Cyprus and Greece, which are now both on an economic recovery path. However, the inevitable austerity measures still remain in effect and suppress the full and true recovery of the economy. It is only through effective and long term growth and development that the economy can re-stabilize again and begin to prosper. To this end, oil and gas have their own particular role to play. The large investments for the infrastructure and installations necessary for the production and export of oil and gas can provide a firm foundation for the restructuring of the macroeconomic and microeconomic indicators, bringing long term monetary benefits both to the country and its citizens, through direct or indirect involvement in the hydrocarbons industry.

Equally important factors are the geopolitical and exploration and production challenges; bilateral or trilateral cooperation, pipelines versus shipping, risks and returns, technical issues, are some of these challenges. In addition, the market outlook, that is, demand and supply trends, the maritime

transportation of oil, LPG-LNG-CNG, shale gas, sustainability, energy alternatives, energy prices, finance and investments, and new innovations/technologies, all complete the global energy network.

Based on the abovementioned facts, the new situation, as it shapes today, renders the Cyprus energy sector as the key for the achievement of the goals for economic resurgence and growth. However, on the other hand, it is true that the discovery of hydrocarbon resources entails challenges, opportunities and critical issues which have to be addressed, such as:

- The need to transform the hydrocarbon wealth into a sustainable, equitable and human-centered development;
- The need to build a broad consensus on the efficient management of the wealth resulting from hydrocarbons; and
- The need to develop appropriate proactive measures to safeguard the security and environmental integrity of the island.

The immediate and short-term plans for further exploration activities offshore Cyprus include the following:⁶⁷

– Block 12 (late 2014 / early 2015)

- Drilling of a second Hydrocarbon Exploration Well (in a new prospective structure).
- Drilling of a second Hydrocarbon Appraisal Well within the ‘Aphrodite’ Discovery (subject to the evaluation of the well data in ‘Ishai’).

– Blocks 10 and 11 (within 2015/2016)

- Drilling of two Hydrocarbon Exploration Wells (one in each Block).

– Blocks 2, 3 and 9 (2014/2015)

- Commencement of drilling by end of summer 2014 for a series of Hydrocarbon Exploration Wells (4 in total), as follows:
 - ◆ Exploration Well in Block 9
 - ◆ Exploration Well in Block 2
 - ◆ Exploration Well in Block 3
 - ◆ Exploration Well in Block 9

Despite the fact that the current exploration plans in Cyprus are progressing well, there is still a number of outstanding issues that need to be resolved. The

LNG Plant should be targeted as the preferred gas monetization option (not only for Cypriot and Israeli gas, but also for the rest of the potential gas deposits in the Eastern Mediterranean Region), since it can offer the necessary export market flexibility and more significantly, could handle additional gas from neighboring regional countries. The steps for the implementation of such a project should be pursued at a fast pace. The main outstanding issues and the next steps that will need to be carried out are the following:

- Conclusion of the negotiations and signature of the *agreement* between Cyprus and the consortium of Noble Energy / Delek / Avner, which will determine the technical and commercial basis for the project of a natural gas liquefaction terminal in Cyprus.
 - ✦ This stage is very important for Noble Energy to be able to evaluate the facts and reach a *final investment decision* for developing the ‘Aphrodite’ Discovery.
 - ✦ Need to also conclude any other relevant *project agreements* with all counterparts.
 - ✦ These *agreements* should provide the basic negotiating tool for any future parties who may wish to export their gas through the LNG Plant in Cyprus.
- Decision on Cyprus’ involvement in the natural gas liquefaction terminal.

Given the current difficult economic situation, the State’s involvement could be limited to infrastructure and services that will be supportive for the construction and operation of the liquefaction plant, and which can generate significant revenue and bring other benefits to the State (such as job creation and expertise).

- Creation of a bilateral *framework of cooperation* with Israel, for natural gas exports from neighboring fields (e.g. Leviathan) through the natural gas liquefaction terminal in Cyprus.
 - ✦ This will have a positive impact on the viability of the project and for securing funding for the project with more favorable terms.
- Conclusion and signature of the relevant agreements with Israel and Lebanon, for the joint exploitation of hydrocarbon deposits extending across the median line.

- Establishing a National Hydrocarbons Fund, through the drafting of the relevant legislation.
- Creating a more favorable business environment for implementation of projects in the field of services/supplies for the oil and gas industry, aiming, apart from the domestic market, to serve also the regional market of the Eastern Mediterranean.

Regarding the gas pipeline export options for Cyprus, a brief but relevant analysis is herewith presented. Turkey is a large market, relatively close to Cyprus, buying gas at premium prices. However, the *Pipeline through Turkey* route must be absolutely excluded, since gas exports through Turkey will effectively allow control of Cypriot gas flows by Turkey. On the other hand, the *Pipeline to Turkey* option entails geopolitical issues (such option should only be discussed following resolution of the *Cyprus Problem*). Greece is another promising market and particularly, a promising transit country for the Central Europe through Italy. There are excellent political ties between Cyprus and Greece, but a potential subsea pipeline option (as mentioned earlier, this is an EU project of common interest, jointly proposed by Greece and Cyprus) would limit export capacity flexibility, while it may also prove technically and economically unfeasible. The large depths (exceeding in some locations the 2,000m), combined with an active seismic environment and large anomalies of the sea bottom, are some of the key challenges facing such a project. This gas pipeline project will undergo a technical and economic evaluation, as part of a feasibility study (if feasible, such a pipeline could be used to deliver additional volumes of gas to Europe via Greece, in parallel with the LNG export option).

Cyprus is still at the early stages, but with rational decisions and good management/organization of all relevant aspects and issues regarding its hydrocarbon prospects, in order to overcome the present technical, geographical and economic challenges, it can certainly experience significant geopolitical and financial benefits, as well as growth and prosperity for the years to come.

Abbreviations & Units of Measurement

2-D – two-dimensional

3-D – three-dimensional

bbl – ‘blue’ barrels of liquid (barrels of oil)

CBM – Coal Bed Methane

CNG – Compressed Natural Gas

CO – Carbon Monoxide

CO₂ – Carbon Dioxide

DME – Di-Methyl Ether

EEZ – Exclusive Economic Zone

EPSC – Exploration and Production Sharing Contract

EU – European Union

FLNG – Floating Liquefied Natural Gas

GTL – Gas to Liquids

H₂ - Hydrogen

km – kilometer (one thousand meters)

line-km – line kilometer

LNG – Liquefied Natural Gas

LPG – Liquefied Petroleum Gasses

Mtoe - Million Tonnes of Oil Equivalent

MC2D – MultiClient 2-D

NGLs – Natural Gas Liquids

ORVs – Open Rack Vaporizers

PGS – Petroleum Geo-Services

RES – Renewable Energy Sources

sq. km – square kilometer

SPAs – Sales & Purchase Agreements

tcf – trillion cubic feet

UNCLOS – United Nations Convention on the Law of the Sea

USGS – United States Geological Survey

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Cyprus and Israel: A Precarious Energy Partnership

George C. Georgiou*

RÉSUMÉ

La question de savoir si une Chypre affaiblie doit faire équipe avec une puissance régionale comme Israël pour explorer ses réserves d'énergie est à l'origine de nombreux débats parmi les Chypriotes. Mais il se pourrait qu'il ne s'agisse plus d'une question de choix pour Chypre mais de nécessité nationale et économique compte tenu de la faible position politique de ce pays. Force est de considérer que tout espoir pour la relance de l'économie semble maintenant aller de pair avec le développement futur des ressources de pétrole et de gaz naturel potentiels. Chypre doit également s'allier avec Israël pour des raisons de sécurité, parce que sans la protection du parapluie de défense de ce pays il est douteux que les entreprises d'énergie soient disposées à braver les menaces de la Turquie pour explorer ses réserves d'énergie. Sans la protection, sans les réserves d'énergie et la participation financière d'Israël, l'avenir énergétique de Chypre ne semble guère encourageant. En outre, un rapprochement inévitable entre la Turquie et Israël (recherché en urgence par les Etats-Unis) cause des craintes à Chypre, compte tenu du fait que la Turquie menace ce pays et occupe militairement 40% de son territoire depuis plus de 40 ans.

ABSTRACT

The question of whether a weak Cyprus should team up with a regional power such as Israel to explore its energy reserves is causing much debate in Cyprus. But, this might no longer be a matter of choice for Cyprus but of national and economic necessity given its weak political position and considering that all hope for reviving its economy now appears to lie with future development of its potential oil and natural gas resources. Cyprus also needs Israel for security reasons because without the protection of Israel's defense umbrella it is doubtful if any energy company would brave Turkey's threats against Cyprus to explore its energy reserves. Without Israeli protection, Israeli energy reserves and financial participation, Cyprus' energy future looks less than encouraging. Furthermore, an inevitable Turkey-Israel rapprochement (urgently sought by the US) is making Cyprus apprehensive considering that Turkey is threatening Cyprus and for more than 40 years is occupying militarily 40% of its territory.

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Introduction

The 2013 Cyprus banking-cum-sovereign debt crisis will undoubtedly stay etched in the memory of Cypriots for many years to come as this small European Union (EU) island economy continues to struggle to maintain both its financial solvency and its membership in the Euro zone. In fact this economic drama continues to unfold, with Cyprus desperately casting for a lifeline to save it from an ongoing severe economic recession.

Not only is the Cyprus financial crisis affecting Cyprus and its people, but will remain as a constant reminder of the potential threats to the Euro zone banking system and the nascent European Monetary Union. The potential lifeline for the Cyprus economy that has been widely discussed are the gas but also petroleum) deposits located within Cyprus' Exclusive Economic Zone (EEZ) and off its southern coast, in the Levantine Basin between Cyprus, Lebanon, Israel, the Gaza Strip, and Egypt. While Cyprus has negotiated and delimited its EEZ with both Israel (2010) and Egypt (2003), as well as with Lebanon (2007) (although that treaty has yet to be ratified by the Lebanese Legislature), it is Cyprus' energy partnership with Israel that could make or break this economic lifeline for Cyprus. As will be seen, the potential energy partnership between Cyprus and Israel is both complicated and fraught with difficulties of Byzantine proportions. It is this energy partnership between two unequal partners in what is obviously a very complicated and dangerous region of the world that is the focus of this paper.

The Cyprus Problem

Cyprus has existed as a potential flashpoint of international conflict from the very beginning of its existence as an independent nation in 1960. The economic problems of this small island nation in the Eastern Mediterranean have at the same time paralleled its rollercoaster political problems. At the time of Independence in 1960, the Cypriot economy, although battered by the effect of the anti-colonial liberation struggle against British rule from 1955-1959; was in relatively good shape thanks to British outlays in Cyprus, both in terms of civilian infrastructure and military build-up, as Britain continued to withdraw from more far flung imperial outposts and to adopt a more limited global posture, including its withdrawal from Palestine, Aden, and the Suez Canal.

These expenditures were further bolstered by Britain's efforts to suppress the EOKA (National Organization of Cypriot Fighters) struggle for independence from Britain and union with Greece.¹

The early years following Independence, saw remarkable economic progress in spite of inter-communal clashes during 1963-1964 and 1967, as the economy moved from a primarily import-substitution manufacturing strategy to a more export and service oriented strategy focusing on tourism and banking.² This brief post-Independence economic miracle came to an abrupt halt in July 1974 when Turkey invaded the island purportedly to restore constitutional order following the coup carried out by the military junta then ruling Greece with the collusion of Greek Cypriot collaborators on the island. The economic consequences of the Turkish invasion and subsequent occupation of approximately one third of the island were catastrophic, resulting in the displacement of one third of the population, the contraction of the economy by two thirds, and the separation of the historically intermingled Greek and Turkish Cypriot ethnic communities into two separate geographic entities.³

In 1983 the Turkish occupied northern area instigated an attempted secession through a declaration of unilateral independence of the "Turkish Republic of Northern Cyprus" (TRNC) which has since been recognized only by Turkey. The Greek dominated and internationally recognized "South" Republic of Cyprus has since managed to restructure its economy after the loss of the most productive and resource-rich northern areas after investing heavily in tourism, banking, shipping, and financial services. The per capita GDP of the Republic of Cyprus had reached \$23,735 in 2004 when it became a full member of the EU; while the 'North' lagged behind, internationally isolated and subsidized heavily by Turkey, managing at best a per capita GDP one third that of the more dynamic and prosperous 'South.'⁴ The 2004 Treaty of Accession to the EU encompasses the Republic of Cyprus with the provision for the suspension of the application of the *acquis* in the northern Turkish-occupied part of the island, to be lifted when the island is reunited.⁵

In 2008, Cyprus became the 14th member state of the EU to join the Euro zone, adopting the Euro currency and abandoning the Cypriot Pound. It appeared at the time, that the economic success story of the Republic of Cyprus, together with its accession to the European Union, was a palatable alternative, if not full compensation, for the political and social cost of the 'Cyprus Problem'

that had plagued Cyprus since its creation in 1960. By 2008 the per capita GDP had risen to \$29,400, while in the Turkish occupied “North”, the figure continued to remain at approximately one third that of the South.⁶ Unfortunately, the jubilation of the Greek dominated Republic of Cyprus resulting from its accession to the EU and the adoption of the Euro currency would be short-lived as the Cypriot economy subsequently imploded as a result of the fallout of the Greek debt crisis. Cypriot banks had invested heavily in Greek government bonds which were subject to a 70% write-down “haircut” as part of the Euro zone’s bailout of the Greek economy. This virtually wiped out the equity of Cyprus’ two largest banks (Bank of Cyprus and Cyprus Popular Bank “Laiki”) that were the backbone of the Cyprus economy.

Enter Israel

Israel for the most part has treated Cyprus, its much smaller and only non-Muslim neighbor, with indifference and on occasion disdain over the past 50 years. One could argue that this originated with newly-Independent Cyprus’ association with and founding membership of the Non-Aligned Movement (NAM), made up of nations of the world that sought to stay out of the Cold War confrontation that was at its most intense at the time of Cyprus Independence in 1960.⁷ Under the leadership of its first President, Archbishop Makarios, Cyprus developed close ideological ties with the likes of Egypt, under Gamal Abdel Nasser; with India, under Jawaharlal Nehru; and with Yugoslavia, under Josip Broz Tito. It is therefore not surprising that Cyprus has traditionally been a firm supporter of Palestinian rights for self-determination and statehood; and thus eyed with suspicion by Israel.

In the 1980s and increasingly in the 1990s when Israel-Turkey relations grew ever closer, militarily, politically, and economically; it is not surprising that Israel-Cyprus relations were at best ‘proper’ if not ‘frosty’ as on the occasion when two alleged Israeli spies were expelled from Cyprus in 1998,⁸ or in 2002 when Antroulla Vasiliou, the wife of former Cypriot President, George Vasiliou, was declared a persona non grata in Israel when a parliamentary delegation she was leading, tried to meet with Palestinian leader Yasser Arafat, who was then under house arrest.⁹

Israel-Cyprus relations thawed almost overnight in the aftermath of the 2010 Gaza flotilla raid by Israeli commandos that led to the death of 9 Turkish

nationals. The Gaza flotilla raid was a military operation by Israel against six ships of the “Gaza Freedom Flotilla” on May 31, 2010, in international waters. The flotilla, organized by the Free Gaza Movement and the Turkish Foundation for Human Rights and Freedoms and Humanitarian Relief (IHH), was carrying humanitarian aid and construction materials, with the intention of breaking the Israeli-Egyptian blockade of the Gaza Strip.¹⁰ Turkey’s then Prime Minister and now President Recep Tayyip Erdogan has since adopted a decidedly anti-Israeli position in Turkey’s policy towards Israel. This has earned Erdogan admiration across the Muslim world but it has left the Israel-Turkey relationship in shambles, much to the dismay of the US, a key ally of both Israel and Turkey, who sees both countries playing key but different roles in its strategic policy for the region as a whole.

While 2010 marked a low point in Israel-Turkey relations it also marked a high point for Israeli energy independence when Israel discovered the Leviathan natural gas field, the world’s biggest offshore gas find of 2010, estimated at 17-18 trillion cubic feet, in the Levantine Basin between Cyprus, Lebanon, Israel, the Gaza Strip and Egypt.¹¹ This came on the heels of another discovery, the Tamar field in 2009, with estimated natural gas reserves of 8-9 trillion cubic feet.¹²

When Cyprus also discovered natural gas in 2011, in an adjoining area to Israel’s Leviathan find, known as the Aphrodite field, since estimated at 3-6 trillion cubic feet, the prospect of a joint exploration of oil and gas in the Levantine Basin, now totaling an estimated 30-35 trillion cubic feet, brought the two countries closer together.¹³ The United States Geological Survey has estimated the natural gas reserves of the whole Levantine Basin at 122 trillion cubic feet, enough to supply the world at the present rate of consumption for one year.¹⁴ The recent rapprochement of Cyprus and Israel now includes very close collaboration on military, cultural, and political matters. Given the inherent dangers of alliances of smaller and weaker nations with more powerful nations that inevitably have broader national interests, one wonders if it is prudent for Cyprus to enter such a relationship with no holds barred. However, given the recent and ongoing financial and debt problems facing Cyprus, as well as the deepening economic recession accompanied by historically high levels of unemployment, not to mention the increasing pressure on the Republic of Cyprus to reach an overall settlement of the

broader Cyprus Problem; it might no longer be a matter of choice for Cyprus but of national and economic necessity.

The Cyprus Banking-cum-Debt Crisis

Just as ‘The Cyprus Problem’ had begun to take on a perennial nature, to the point of been abandoned by the international community as one of those intractable conflicts that had no plausible resolution, the picture began to change quickly, taking many astute international observers by surprise. The surprise did not come from the political arena, namely, a possible breakthrough in the interminable inter-communal discussions that have been held on and off for decades, but from the economic arena.

The economy of Cyprus can generally be characterized as small, open and dynamic, with services constituting its ‘engine of growth.’ For the most part, the Cyprus economy since its Independence in 1960 is what would be considered in the economic literature a success story. For a number of years, Cyprus had been experiencing rising living standards, as shown by the high level of real convergence with the EU, with the per capita GDP standing at around 92% of the average for the EU27 in 2011.¹⁵

The services sector of the economy was the fastest growing sector and accounted for about 80.5% of GDP in 2011. This reflects the gradual restructuring of the Cyprus economy from an exporter of minerals and agricultural products in the period 1960-1974, to an exporter of light manufactured goods through the early part of the 1980s, and to an international tourist, banking, shipping and financial services centre since then. The manufacturing sector accounted for about 17.1% of GDP in 2011, while the primary sector (agriculture and fishing) continues to shrink, reaching only 2.4% of GDP in 2011. The economy of Cyprus is open, with a share of total imports and exports to GDP of over 90%.¹⁶

Serious problems surfaced in the Cypriot banking and financial sector in early 2011 as the Greek fiscal crisis and euro zone debt crisis deepened. Cyprus’ borrowing costs had risen steadily because of its exposure to Greek debt. Two of Cyprus’s biggest banks (Bank of Cyprus and Cyprus Popular Bank ‘Laiki’) were among the largest holders of Greek bonds in Europe and had a substantial presence in Greece through bank branches and subsidiaries. In July 2012,

Cyprus became the fifth euro zone government to request an economic bailout program from the Eurogroup (European Commission, the European Central Bank (ECB), and the International Monetary Fund (IMF); collectively also known as the “Troika”).¹⁷

Without an international bailout there is no doubt that the Cypriot banking sector would have collapsed, and with Cyprus bank balance sheet assets approximately 7-8 times the size of the economy, Cyprus itself would inevitably have defaulted. The apparent lack of urgency on the part of the Troika leading up to the March 16, 2013 initial bailout agreement was more political than economic with most of the hesitancy coming from national governments such as Germany, France, Austria, Netherlands and Finland. German officials in particular had questioned the necessity of bailing out a small island economy that represents no more than 0.2% of Euro zone output, arguing that such a ‘small-scale’ sovereign default would not present a systemic risk to the Euro zone. According to this argument Cyprus was not eligible for aid unless it threatened contagion and hence the stability of the entire euro region.

In stark contrast, the ECB’s position was that the approximately 10 billion Euro cost of a Cyprus bailout was a small amount to pay for the peace of mind it would bring to a Euro zone still recovering from the much larger bailouts of Ireland, Portugal, Spain, and especially Greece.¹⁸ After all, it is the fact that Cypriot banks were out of proportion to the Cyprus economy, that Cypriot banks were overloaded with Greek debt and that the Greek debt suffered a 70% haircut that ultimately led to the Cyprus banking crisis. Unlike Greece that experienced a true sovereign debt crisis, the Cyprus crisis is primarily a banking problem. However, since the Cyprus banking sector is such a large multiple of the nation’s GDP, any bailout of the state would be a bailout of the private banking sector and vice versa.

Thus, the main reason for the reluctance of German and other north-European governments to be more forthcoming with aid for a fellow Euro zone member, as had been the case with Greece, was not to be seen as using German taxpayers money to aid private banks that had grown too big for their own good and whose main depositors are foreign, non-EU nationals, and primarily Russian to boot. The fact that the German media was full of allegations that many of these Russian bank deposits are the product of money laundering, or of tax avoidance, if not outright tax evasion, did not help matters either.

Consequently, it had been made clear to Cyprus that the memorandum for assistance for Cyprus would include a section on money laundering which would set out measures that Cyprus must examine on the issue and that this would be monitored.

On the other hand, it is also known that these primarily northern Euro zone nations want taxes in all member nations of the EU to be brought into line upwards so that those tax rates are closer to their own levels. They are afraid that lower taxes in places such as Cyprus, Luxembourg, and Ireland attract foreign capital flows and act as a source of tax evasion. Consequently, they are seeking closer EU co-operation on tax evasion and they saw an opportunity to squeeze countries such as Cyprus to reduce legal loop holes for tax evasion and to force them to raise their tax rates. Unfortunately, no clear distinction is made between tax avoidance and tax evasion and by extension money laundering allegations.¹⁹

Lastly, it was just not acceptable to the well-balanced and diversified economies of the North that the financial or banking sector of a member nation of the EU could possibly be 7-8 times the size of its economy. Such an overweight sector must be cut down to size, namely, to the weighted size of the EU average which is at most 3 times the size of the national economy.

Although, all this was common knowledge, leading up to the decision of March 16, 2013, the actual terms were a shock not only to Cyprus but also to the financial markets and many international observers. Cyprus had officially requested 17 billion Euros in June 2012 but the Euro-zone finance ministers reached a deal to provide only 10 billion Euros in bailout funds with an additional 5.8 billion Euros to be generated by a bank deposit tax or a 'haircut' in current jargon.

What was most striking and a first in modern banking times is that according to the terms of the bailout agreement all bank deposits would bear the brunt of the haircut, given that Cypriot banks had relatively few bondholders. The Cyprus banks at the time held close to 70 billion Euros in deposits, and almost half of the deposits were believed to be from non-resident Russian citizens, with Russian banks having \$12 billion and Russian corporations about \$19 billion at the end of 2012, according to Moody's, the rating agency.²⁰ According to the agreement Cyprus also agreed to raise the country's nominal corporate tax rate, the lowest in Europe, from 10% to 12.5%. Unlike other Euro bailouts,

Cyprus would not be given a 'debt haircut' but a 'deposit haircut' instead.²¹

Faced with an ultimatum from the ECB that emergency funding to Cypriot banks would be terminated, and a 'take it or leave it' attitude from the Eurogroup, Cyprus agreed to the terms of a 'revised' bailout in the early hours of Monday, March 25, 2013. Unlike the initial agreement, Cyprus ended up agreeing to guarantee all bank deposits less than 100,000 Euros but agreeing to 'shut-down' its second largest bank (Cyprus Popular Bank 'Laiki'), consolidate if not dismantle its largest bank (Bank of Cyprus) by ceding the operations of all its branches in Greece to Greek banks, as well as accepting a one-time levy (haircut) on bank deposits exceeding 100,000 Euros at a rate of at least 40-60% as needed. This of course would be coupled with short-term capital controls and other administrative regulations as needed.

It was clear from the March 28, 2013, bailout agreement that the Cyprus economy would contract severely. However, it was not long before another bombshell fell when the terms of the agreement were "updated" at a meeting of the 17 finance ministers of the Euro zone in Dublin on April 12, 2013, to reflect a more detailed "debt sustainability analysis" which showed that the economy was actually in worse shape than initially assumed. In order to keep its debt and deficit from spinning out of control and to meet the terms of the 10 billion Euro bailout secured just two weeks earlier, Cyprus would now need a total of 23 billion Euros of financing, of which Cyprus would have to contribute 13 billion Euros, more than twice what was originally expected. In so doing, Cyprus also agreed to sell 400 million Euros of its gold reserves, or an estimated 10 tons from its 13-ton reserve, renegotiate the terms of its 2.5 billion Euro loan with Russia, and impose further losses on Bank of Cyprus depositors and creditors. It was also suggested that holders of Cypriot government bonds could be urged to agree to a debt swap (haircut).²² Dutch Finance Minister Jeroen Dijsselbloem and German Finance Minister Wolfgang Schauble made it crystal clear that the extent of aid from the Euro group would remain at 10 billion Euros, with 9 billion coming from the ECB and the remaining 1 billion from the IMF.²³

No doubt the repercussions of the terms of this bailout agreement will be far reaching as this is the first time that bank depositors have been asked to shoulder any of the losses of bank failures. While Euro officials have been quick to claim that Cyprus is a unique case and that depositors' money is safe, no

matter what the circumstances; it would appear to be contrary to the ECB's efforts to reassure financial markets and depositors that the European Banking System is sound and depositors have no safer place to keep their money than EU banks. Cyprus may be small in just about all respects from a global perspective but it is once again living up to its reputation as a potential flashpoint of regional if not global significance, especially as global integration makes contagion more the norm than the aberration. It remains to be seen if a Euro-wide unified banking system is feasible if it is perceived that there is a double standard as far as the integrity of bank deposits is concerned, and where a Euro in Cyprus is not the same as a Euro in Germany. This will only add to the perception of a growing North-South rift in the Euro zone.

An Energy Solution for Cyprus

Newly elected Cyprus President Nicos Anastasiades appealed to Cypriots the day after the terms of the initial bailout were made public to accept the levy on bank deposits as the “least painful solution.” He went on to say that depositors would be offered bank shares covering the full amount of their losses, while those who left their savings in banks for another two years would be rewarded with bonds backed by future income from exploiting Cyprus's natural gas deposits. It was not clear at the time if these were off-the-cuff remarks of a recently elected politician or actual policy prescriptions. What is clear is that no one expected the backlash that would ensue, not only from Cypriot bank depositors but also in European financial markets and beyond. Furthermore, it was also clear that if Cypriot banks, that represent its most important sector and engine to growth in recent decades, were to be downsized and if all the restrictions and conditions imposed on Cyprus through the bailout agreement were fully implemented, it is highly unlikely that Cyprus would survive as a regional financial center. In fact the whole purpose of the exercise was to put an end to the ‘Cyprus banking model’ once and for all.

The fallout from the whole financial crisis in combination with the onerous terms of the bailout agreement, have resulted in a predicted recession, deeper than anything Cyprus has experienced since the Turkish invasion and occupation of 1974. Thus, all hope for the Cyprus economy now appears to lie with future development of its oil and natural gas resources; a scenario that is by no means a foregone conclusion.

The potential future revenue flows from the exploitation of offshore natural gas reserves again came into play when Cypriot Finance Minister Michaels Sarris was in Moscow a few days after the Cypriot House of Representatives unanimously rejected the Eurogroup's initial bailout offer, suggesting a role for Russia in Cyprus' energy development in return for Russian aid with the bailout efforts. The initial Russian response was unexpectedly negative, even though Russian nationals represent at least a third of bank deposits in Cypriot banks. Russia has coveted a foothold on the Island for decades, both militarily (possibly a naval base, especially now that its position in Syria is in doubt) and more recently for the exploitation of Cypriot natural gas reserves, given that Russia is Europe's largest supplier of natural gas, and has as its key energy objective to keep it that way. Russia's recurring and most recent troubles with Ukraine and its annexation of Crimea only reinforce Russia's interest in Cyprus and Levantine Basin energy reserves in general.

However, any substantive revenues from natural gas is likely to be 5-8 years away at the earliest, and the development of any energy resources will now be much more difficult to orchestrate given the stark financial situation the Cypriot authorities presently find themselves in. Furthermore, Cyprus, following its recent major financial crisis, is now negotiating the future of its energy sector from a greatly weakened position. This position is further weakened by the political pressure that is put to bear on Cyprus to reach a political settlement of the Cyprus Problem. The weak economic position Cyprus presently finds itself in, has given outside interested parties an opportunity to press for a compromise in the reunification talks presently taking place between the Republic of Cyprus and the self-declared TRNC. For these outside parties, any solution is better than no solution, given the long term nature of the Cyprus problem and the constant threat of flare-ups that could draw in Greece and Turkey (fellow NATO member nations), as well as the UK (former colonial ruler) and the EU (now that Cyprus is a EU member state). Under the 1960 Treaty of Guarantee, Britain, Greece and Turkey pledged to ensure the independence and territorial integrity of Cyprus as well as respect its Constitution. Add to this chorus, the US and the UN, both of which have worked for decades, possibly for different reasons, for a Cyprus Solution. The strategy employed is once again a classic carrot and stick approach, with the potential windfall from natural gas revenues smoothing away any remaining

obstructions to an overall settlement, while the current dire economic straits the Cyprus economy finds itself in making the potential costs of another failed round of negotiations for an overall settlement even greater, irrespective of whether the sought after agreement is a just one or even workable.

Furthermore, it goes without saying that the weakened economic and political position Cyprus finds itself in, further accentuates the importance to Cyprus of a close energy partnership with its neighbor Israel. What might have been a matter of strategic decision making before, is now possibly the only trump card Cyprus has to play. This trump card, however, is even more precarious as its value is primarily dependent on Israel's willingness to play its energy hand in partnership with Cyprus. In this regard, Israel has yet to declare its true intentions. Alternatively, it could also be because Israel has yet to map out for itself its long term energy path. However, a true energy partnership between Israel and Cyprus, is increasingly doubtful given that an inevitable Turkey-Israel rapprochement inches ever closer, edged along by Israel's national interest in restoring its strained relationship with Turkey, its erstwhile only non-Arab ally in the region; as well as the urgent prodding of the US, that is anxious to see its two main allies in the region restore their former military partnership. But even if the Turkey-Israel relationship is never restored, Turkey will always present an obstacle to the Republic of Cyprus' exploitation of any oil and gas reserves in its EEZ, as Turkey continues to occupy the northern third of the Island and purports to speak on behalf of and as a defender of the interests of the Turkish Cypriot minority. The role of Turkey as an obstacle to Cyprus energy development as well as its role as spoiler in the Cyprus-Israel energy relationship will be addressed subsequently.

More recently, Israel's potential energy partnership with Cyprus has been further strained by Israel's commitment in recent months to supply both Jordan and the Palestinian Authority with natural gas. These developments reduce the pressure on Israel to commit itself to an energy partnership with Cyprus at the present time. Furthermore, Egypt is also shaping up to be a potential lucrative market and strategic energy partner for Israel for a number of reasons. These latest developments have resulted in Israel placing its erstwhile energy partnership with Cyprus on the back burner pending further developments including the possible discovery of additional natural gas deposits in Cyprus' EEZ.

Israel, A Nascent Energy Power

The potential for a mutually beneficial energy partnership between Cyprus and Israel is predicated on a combination of natural and man-made circumstance. In terms of the former, geographic location is paramount. Both Cyprus and Israel, border together with Lebanon, the Gaza Strip, and Egypt, what is known as the Levantine Basin. According to the US Geological Survey, the Levantine Basin is estimated to hold up to 122 trillion cubic feet of natural gas. However, until recently, this area had been neglected by major oil and gas corporations in favor of more abundant and already known sources of hydrocarbon deposits in the Persian Gulf and North Africa. This all changed in January 2009 when Israel working through a Houston-based Texas firm, Noble Energy, discovered natural gas in the Tamar field, located roughly 50 miles off Israel's northern coast. The Tamar field is estimated to hold 8.4 trillion cubic feet of gas.²⁴

Gas began flowing to Israel from the Tamar field on March 30, 2013, with the Israeli Energy and Water Resources Ministry estimating that Tamar could meet between 50% and 80% of the country's natural gas needs over the next decade. The Tamar project was not intended to become a primary source of natural gas for Israel, but rather to bolster Israeli energy security by making the country less dependent on natural gas imports from Egypt. In fact natural gas provided by the Arish-Ashkelon pipeline from Egypt, brokered through the East Mediterranean Gas Company, an Egyptian-Israeli natural gas consortium in 2005, officially was shut down in April 2012, when Egypt's state-owned natural gas company announced that it would pull out of the 2005 agreement, and the Israel Electric Corporation formally followed suit. This was not an unexpected development as Israel's energy partnership with Egypt had been beset with problems from the start. Egypt, a net exporter of gas was facing its own problems with rising domestic demand and had renegotiated a price increase in 2008 when it became known that the initial price agreed to was significantly below the world market price. Further strains on Israeli-Egyptian relations resulted with the onset of the Arab Spring in 2011 which further curtailed Israeli imports from Egypt. Furthermore, militants in the Sinai Peninsula had frequently targeted the natural gas pipeline after Egypt's former president Hosni Mubarak was deposed, shutting down flows for weeks at a time, until the gas supply came to a complete stop.²⁵

The fact that natural gas flows from Egypt were shut down in April 2012, and that domestic reserves of natural gas from the Mari B reservoir in the Yam Tethys field located off the coast of Ashdod were been depleted much faster than expected, led to stopgap measures including the building of a floating liquefied natural gas import terminal in 2012 by the state-owned Israel Natural Gas Lines Ltd. This floating natural gas terminal was built in record time and actually received its first shipment of liquefied natural gas from BP in January 2013. This floating import terminal was never intended to become a primary source of natural gas for Israel, but rather to bolster Israel's energy security by making the country less dependent on its pipeline with Egypt. In fact, imported liquefied natural gas costs three to four times as much as domestic natural gas. Consequently, production of Tamar natural gas serves as a stable source of energy fully under Israeli control, thus promoting Israeli energy security.²⁶

The Tamar gas has proven to be of great importance for Israel's economy. As a result of gas flowing from this field, as well as other more significant offshore gas fields in the future, Israel will achieve energy independence for the first time in its history. The price of electricity is expected to decline after rising significantly following the cutoff of gas supplies from Egypt, and state coffers are expected to overflow with funds, that if directed into a special fund (i.e., sovereign wealth fund) and managed appropriately will contribute to the wellbeing of future generations. More specifically, Israel's trade balance can be expected to improve significantly, its currency will appreciate, and its economy could easily grow by an additional 1.0% per year going forward.²⁷

While the long run energy picture for Israel is bright, numerous short run issues remain in achieving energy security even as the Tamar gas continues to flow. First, as in the case of the Arish-Ashkelon pipeline, we are talking about one single pipeline. This pipeline reaches Israel's coast in the vicinity of the city of Ashdod and from there supplies gas to all consumers. No matter how well guarded, all it would take is a single accident or deliberate sabotage and gas supply could be disrupted certainly for days and possibly for weeks. Second, while a second pipeline was ruled out, the erection of an additional intake terminal for the offshore gas is still a possibility; but again due to cost considerations, opposition by local residents, and opposition from defense authorities to specific locales, no additional terminal has yet to be built.

It goes without saying that Israel had no clear vision for exporting natural

gas from the Tamar field given Israel's dire need for energy to satisfy its domestic market. However, matters began to change with the discovery of an even larger offshore gas reserve estimated at 16-18 trillion cubic feet, the Leviathan natural gas field, in December 2010, located also in the Levantine Basin, approximately 90 miles west of Haifa. Thus far, energy companies operating in Israel have discovered a total of seven offshore gas fields with a confirmed combined reserve of about 32 trillion cubic feet.²⁸

While there is an obvious constituency for putting domestic interests first, it is also clear that the energy companies would only be willing to commit to developing Israel's gas industry if they could be assured of a gas export market that would be sufficiently more profitable to justify the necessary investment. In October 2011, the Tzemach Committee (headed by the director-general of the ministry of energy, Shaul Tzemach) was named to study the issue. The initial recommendation of the Tzemach Committee in August 2012 was to set aside 450 billion cubic meters (bcm) (47%) of a presumed resource base of 950 bcm of gas for Israeli domestic needs. This was subsequently changed by a Cabinet decision to a 540 bcm (60%) retention figure. This was interpreted by the Israeli media as a 40% cap on gas exports.²⁹ Little attention was paid to the fact that the size of the resource base itself was constantly changing, as with the discovery of the Karish gas field in July 2013, and that the resource base itself as well as Israel's domestic requirements are at best estimates. The Tzemach Committee assumed Israeli gas demand averaging 18 bcm per year over the next 25 years, yet at present, Israel consumes around 6.5 bcm a year. Presumably this provides sufficient political wiggle room for all the parties involved going forward.

Israel is presently ahead of neighboring countries in terms of natural gas exploration and drilling operations, although Egypt had a head start but has recently been beset with various difficulties both political and economic. As indicated, Israel started production in the Tamar field for internal consumption in March 2013. More recently, Israel has signed gas export agreements with neighboring countries and regions, such as the West Bank and Jordan, in an attempt to assume the main role in the regional gas industry in the eastern Mediterranean. Israel will export about 66 billion cubic feet of gas from the Tamar gas field to Jordan as of 2016 for a 15 year period. Exportation is expected to start upon the completion of the construction of a

short pipeline south of the Dead Sea. In January 2014, Noble Energy signed a \$1.2 billion contract with the Palestinian Electric Company to supply the power station in Jenin in the northern West Bank with natural gas from the Leviathan gas field for the next 25 years. It must be noted that the gas to be exported to the West Bank was considered part of the 60% domestic consumption share of Israel, which is not intended for export. The Palestinian Authority accepted this agreement despite the fact that Israel is still objecting to the development of the Gaza Marine field off the coast of the Gaza Strip.³⁰ According to the British company BG Group, this field which was discovered in 2000, has reserves of about 1 trillion cubic feet and it can supply Palestinian power stations with gas for the next few years, thus eliminating the need to import gas from Israel. However, Israel shut down that operation in 2001, after a new Palestinian uprising began. When Hamas took over in Gaza in 2007, Israel imposed an economic boycott, causing BG to pull out of negotiations with the Israeli government and finally shutting down its office in Israel in 2008. The whole operation has been on hold since then.³¹

As noted this last agreement was deemed to fall under Israeli “domestic” gas consumption and thus leaves more for export under the “40% gas export cap” agreement. In the meantime, Israel is also promulgating the laws required for the next phase of its energy industry development, which is related to internal gas distribution through the construction of a national pipeline network. This leaves the last and most difficult phase of Israeli gas industry development, the size, method, and direction of its gas exports. Negotiations are ongoing in this regard and the final outcome is both uncertain and unpredictable. The list of issues that need to be addressed is long: the taxes it must impose on energy companies operating on its territory, the quantities of gas to be exported, the required domestic gas reserve ratio it must keep for its own energy security, the delimitation of its EEZ with its maritime neighbors (including both Lebanon and the Palestinian Authority/Gaza Strip), whether gas exports will be through fixed pipelines and if so the route(s) of such pipelines, if gas exports are to be in the form of liquefied natural gas (LNG) whether this will be via LNG terminals on Israeli territory or on neighboring Cyprus territory, or from a floating LNG platform.

Will Israel Go it Alone, or in Cooperation with Cyprus?

A significant decision for Israel going forward is whether to engage in its new role as an energy exporter alone, or in cooperation with its much smaller and only non-Muslim neighbor Cyprus. While this is a strategic decision for Israel as a regional power, it is of paramount national importance to Cyprus with an economy that is still reeling from the after-effects of its recent financial crisis and presently in the midst of a deep recession. Furthermore, without the protection of Israel's defense umbrella it is doubtful if any energy company would brave the threats of Turkey to prevent such developments with force if necessary.

Given Cyprus' present weak economic situation and the constant threats coming from Turkey, Cyprus' erstwhile allies within the EU, with the full support of the US and the UN, have all seized the opportunity to push for a settlement of the Cyprus Problem that would remove an international headache for the West, and the international community in general, that has been intractable these past 60 years. The proposed solution amounts to the resurrection of a version of the 2004 Annan Plan that was soundly defeated by the Greek Cypriots (76% against), although accepted by the Turkish Cypriots (65% in favor) in separate referenda. That plan would legitimize the Turkish invasion and occupation of northern Cyprus by Turkey and would de facto divide the island between Greek and Turkish Cypriots as political equals. The plan envisions a bizonal, bicomunal, politically equal federal state with a single national identity. As is usual with these proposed settlements, the devil is in the details.³²

In reality, Israel could develop its natural gas energy export sector single-handedly (i.e., without Cyprus), given that Israeli proven gas reserves, standing at 32 trillion cubic feet, presently dwarf those of Cyprus at approximately 5 trillion cubic feet. Of course, thus far only one sector (Block 12) of Cyprus' EEZ has been fully surveyed and expectations are high that there are much larger deposits to be found, if not in that sector, in adjoining sectors of Cyprus' EEZ. However, any energy deposits, other than what has been proven, remain at best an estimate, if not pure speculation.

On the other hand, collaboration with Cyprus could prove to be quite rewarding to Israel going forward. First, the more proven gas reserves that can be pooled for development and export, the greater the economies of scale and

the lower the cost of production and processing. Second, an Israeli partnership with Cyprus that is willing to provide a location for the construction of a liquefied natural gas (LNG) processing site and export terminal, would relieve Israel from the domestic debate that such a site within Israeli borders would entail. Third, this off-shore terminal location solution would reduce the environmental impact on Israel proper. However, it would add to the already large security burden such an offshore facility would present, and more so if the site was on the territory of another nation. Furthermore, it is not clear how depending on energy installations in another country necessarily increases Israel's energy independence or energy security. Fourth, Cyprus, being a EU member nation, would grant Israel with a direct political and geographic link to the vast, highly lucrative, and growing European energy market. It could thus be argued that natural gas exports from Cyprus/Israel to the EU would benefit from EU financial and political support as this would further diversify EU energy supplies and increase the EU's energy security. It would also further strengthen the EU's support of Israel vis-a-vis the Palestinians, as well as in the Israeli-Arab conflict overall. Fifth, a direct energy link between Cyprus/Israel and the EU via Greece, another EU member, would enable the EU to further its energy security and energy independence by bypassing both Russia and Turkey. Both Russia and Turkey are questionable as long-run sources of secure energy for Europe. Reliance on Russia as a secure source of energy is clearly under question as recent Russian actions in Ukraine, and more specifically Russia's annexation of Crimea, demonstrate. Finally, recent developments in Turkey are also unsettling for Israel with the present Turkish leadership under Prime Minister Recep Tayyip Erdogan, moving Turkey further and further towards a more Islamic and authoritarian regime. As already mentioned, Israel has been singled out for harsh criticism by Erdogan for its treatment of Palestinians. Following the 2010 Gaza flotilla raid by Israeli commandos that led to the death of 9 Turkish nationals and despite a formal apology by Israel with US encouragement, relations that were once warm remain cold. These same reasons should give Israeli policymakers reason to question the reliability of Turkey as a secure energy market or as a conduit for its gas exports to Europe. If anything, Israel should aim for a diversity of export outlets for its energy if security is an objective. Furthermore, it might be wise for Israel to look east to Asia as well as west to Europe to secure markets for its gas exports over the long term.

What Form should Gas Exports Take: Pipeline or LNG?

Maybe one of the first decisions Israel (and Cyprus for that matter) has to make is whether to rely on pipelines or LNG (or possibly compressed natural gas, CNG) for its gas exports. If initial cost is the number one issue, clearly pipelines are a more cost effective option. In that regard, and up until very recently, a pipeline to Turkey was considered to be the major contender. Turkey is relatively close by; its economy is growing and it is expected to see domestic demand increase from 43.5 bcm in 2012, to as much as 60 bcm by 2020. Furthermore, Turkey has only secured 6 bcm of the additional 16-17 bcm of gas it will need to import from Azerbaijan, and that will not start till 2018-19.³³ Over the past three years, Turkey has experienced some of the fastest growth in energy demand of countries in the Organization for Economic Cooperation and Development (OECD). Unlike a number of other OECD countries in Europe, Turkey's economy has avoided the prolonged stagnation that has characterized much of the continent for the past few years. The country's energy use is still relatively low, although it is increasing at a fast pace. According to the International Energy Agency (IEA), energy use will continue to grow at an annual growth rate of around 4.5 per cent from 2015 to 2030, approximately doubling over the next decade.³⁴

However, a pipeline to Turkey could prove to be a political nightmare for Israel. More than likely the Israeli foreign ministry likes the idea because it would help improve ties with an important neighbor, and the defense ministry likes the idea of improving security ties with what recently was a close military ally. However, it is not clear if a pipeline to Turkey is possible without first settling important maritime boundary issues between Israel and Lebanon, or even a full solution of the Cyprus Problem. One thing is for sure, any land pipeline through Lebanon and Syria or along their shallow seabed would reduce both operating and construction costs. However, such a route would entail unacceptable political and security risks for Israel, not to mention the open hostility to such an option by both Lebanon and Syria, both of which remain formally in a state of war with Israel.

Thus, any pipeline east of Cyprus would have to run through waters that are Cypriot, unless Lebanon and Syria acquiesce to a path through Lebanese and Syrian waters. Cyprus and Israel (2010) have delineated their EEZ boundaries as has Cyprus and Lebanon (2007), although Lebanese legislators have yet to

ratify that agreement. Cyprus had already delimited its maritime boundary with Egypt in 2003. All three are model agreements based on the application of the median line and with a third party dispute settlement provision, between an island state and its continental neighbors in accordance with Regime of Islands, Article 121 of the 1982 United Nations Convention on the Law of the Sea (UNCLOS III). The United Nations defined the land border between Lebanon and Syria in 2000, but not the delimitation of their maritime zones (territorial sea, contiguous zone, exclusive economic zone and continental shelf).³⁵

As it turns out the respective claims of Israel and Lebanon overlap by about 860 square kilometers (332 square miles) in a potentially rich portion of the Levant Basin close to already proven Israeli and Cypriot gas fields.³⁶ Although the potential path of any pipeline east of Cyprus may be in Cypriot waters (according to UNCLOS and international law), in reality any route taken by a pipeline from Israel to Turkey to the east of Cyprus would also have to pass through waters controlled not by the Republic of Cyprus but by Turkey (and the TRNC).

Nonetheless, veteran observers of the region were not surprised when the Israeli media announced on March 23, 2014, that more than 10 companies had submitted bids for the tender of a proposed undersea pipeline that would export natural gas from Israel's offshore Leviathan field to the Turkish port of Ceyhan, a distance of 450 kilometers (280 miles). What is also interesting is that the pipeline would run from a floating production, storage and offloading (FPSO) ship, avoiding for the time being the decision on a land terminal either on Israeli or Cypriot territory. However, the proposed pipeline would lie totally in Cyprus' EEZ, averaging a depth of 2,000 meters (6500 feet) and costing in the vicinity of \$2.25 billion, thus bypassing both Lebanon and Syria, as well as avoiding the disputed maritime boundary between Israel and Lebanon. Of course, a pipeline of such depth would require significant engineering and technical expertise rivaling other pipeline initiatives such as North Stream (Baltic Sea) and South Stream (Black Sea).³⁷

The technical obstacles of course pale in comparison to the political obstacles that the Cypriot coast line route present. Such a route would require the consent of the Republic of Cyprus, which, based on long-standing positions held by the Cypriot government, would be out of the question without a political solution to the de facto division of the Island, between the recognized

Greek-dominated Republic of Cyprus in the south, and the Turkish-occupied, TRNC, recognized solely by Turkey.

An alternate route that would avoid the Lebanon/Syria problem altogether would be a pipeline overland Cyprus and from there to Turkey. If distance, engineering and cost were the only consideration, this might be the best option. This would entail a subsea line from the Israeli and Cypriot gas fields to Vassiliko, on the southern coast of Cyprus, then an overland pipeline to the northern coast, followed by a subsea pipeline to Turkey. Unfortunately, at the moment this remains a pipedream that is even less probable than the route east of Cyprus, barring the solution of the Cyprus Problem, given that laying a pipeline from the southern Government controlled coast of Cyprus to the Turkish occupied northern coast is at the present time politically impossible.

A third pipeline route option would be to lay a pipeline west of Cyprus to Crete and from there to mainland Greece and on to Europe. This would avoid the Israeli-Lebanon-Syria problem and would avoid the Cyprus-Turkey problem but would need to pass through waters that are even more diplomatically murky and of course much deeper, up to 3000 meters, thus more difficult from an engineering point of view, not to mention of much greater distance (1040 kilometers versus 450 kilometers), and of course at much greater cost (estimated at approximately \$15-20 billion).³⁸ The problem with this option is that Greece, Turkey, and Cyprus have yet to declare what their respective EEZs are in this area, let alone reach an agreement on the delimitation of their maritime borders. However, two important consequences of a pipeline west of Cyprus are first, it bypasses Turkey altogether, both as a market for gas exports but also as an energy route to the European market. And second, an Israeli partnership with Cyprus and Greece would provide Israel with a direct geographic and political link to the very important EU energy market; given that both Cyprus and Greece are EU member nations.

A straightforward interpretation of the Regime of Islands, Article 121 of the 1982 United Nations Convention on the Law of the Sea (UNCLOS III) would give Cyprus a common boundary with Greece's EEZ, thanks to the Greek island of Kastelorizos off the coast of Turkey.³⁹ While much has been made regarding the importance of EEZ boundaries, and rightfully so, it must be noted that UNCLOS does not give nations the right to prevent third parties from laying pipelines, phone lines, etc., thru their respective EEZs, but it does require the

approval of the host nation of the actual pipeline path, thus effectively giving the host nation veto power over pipelines through its EEZ. However, more than likely in this case, Turkey would want to claim a common boundary with Egypt's EEZ by discounting the existence of the Greek island of Kastelorizos. This was shaping up to be a difficult problem for Cyprus and Greece, given the fact that Turkish Prime Minister Erdogan was a strong supporter of President Mohamed Morsi of Egypt and it was not clear what position Egypt would take in this matter. However, things changed quickly when President Morsi was deposed in a military coup. The present Egyptian regime headed by Abdel Fattah el-Sisi, cannot be pleased with the support that Turkey under Erdogan gave the Morsi government and is likely to now side with Cyprus and Greece on this matter, especially if this political alignment might provide access to the vast EU market for Egyptian gas in the future. However, in the short run, it appears that Egypt is more likely to be an importer of Israeli natural gas rather than an exporter of natural gas to Europe or anywhere else for that matter, due to Egypt's growing domestic demand and serious Egyptian gas production and distribution problems under both the Mubarak and Morsi regimes. Access to Levantine Basin natural gas that would alleviate the current energy shortage in Egypt would also reduce the political pressure, both domestic and international, on a less than democratic Egyptian military regime that is still trying to suppress opposition from the Muslim Brotherhood and establish its legitimacy.

For the time being neither Athens nor Ankara seem to wish to deal with this very hot EEZ issue as it relates to Cyprus, which is just as well given the fact that they have yet to delimit their maritime boundaries in the Aegean, an issue which is considered even more problematic and has not been directly addressed due to its obvious sensitive nature for both sides. Of course there is the possibility, though slight, that this problem might be avoided altogether if a pipeline route to Crete and mainland Greece could be found through Egypt's EEZ. Either way, a pipeline to Greece for Israeli and Cypriot gas (and maybe even Egyptian gas) would be even more complex than a route east of Cyprus to Turkey. It would require state of the art technology to lay pipes at depths of 3000 meters or greater, and at a cost significantly more than that of a pipeline to Turkey, generally estimated at \$15-20 billion.^{40/41} Thus, cost alone might rule out such a project, unless, of course, Greece finds gas in the vicinity of

Crete or some other convenient intermediate location; or Cyprus finds significantly larger gas deposits in its remaining EEZ.

Unfortunately for Cyprus, recent developments have made any pipeline plans for Cyprus natural gas exports even more remote as Israel is looking for an intermediate solution to its energy future by developing further its regional energy market by adding Egypt to its list of neighborhood clients that already include Jordan and the Palestinian Authority. Not only does this reduce the transportation cost due to proximity but such short distances can easily be traversed with relatively inexpensive pipelines and in the case of Egypt, connected to the existing Egyptian pipeline network.

While this development might appear surprising to outsiders, this might prove to be both a politically wise and economically sound energy option for Israel. First, Egypt is facing a domestic natural gas shortage and thus presents a nearby market for Israeli natural gas. Second, the decrease in Egypt's natural gas production has resulted in under-utilized existing LNG plants, reducing the needed new investment in energy infrastructure. Third, the existence of existing LNG plants and existing pipeline network in Egypt opens up the possibility of Israeli natural gas reaching the Asian market, where LNG fetches twice the price the EU pays. Fourth, the close proximity of Egypt together with the existing Egyptian pipeline network would reduce the transportation cost of Israeli natural gas to a fraction of the cost of constructing any pipeline to Turkey. And to make things even more difficult for Cyprus' energy future, any pipeline from the Levantine Basin to Turkey would cost a fraction (estimated at \$2.2 billion) of any such pipeline linking Israel and Europe by way of Cyprus and Greece, the so-called South-East Corridor (estimated at \$15-20 billion).⁴²

Liquefied Natural Gas (LNG) Option

In as far as where this leaves Cyprus' energy options, given the political problems all pipeline routes would entail, as well as the significant cost of an Israel-Cyprus-Greece pipeline, it would appear that liquefied natural gas (LNG) would be the preferred option for Cyprus, but should also be an option that Israel pursues in tandem with its pipeline plans. While LNG is clearly the preference of Cyprus, Israel has yet to commit to this option. In theory, the LNG option could proceed irrespective of an overall solution to the Cyprus Problem.

It could proceed without a return to full normal relations between Israel and Turkey. It could proceed without Cyprus having to deal with Turkey, which does not accept the legitimacy of the Republic of Cyprus. It would not require the declaration of EEZs and delimitation of the maritime boundaries of Cyprus and Greece, Cyprus and Turkey, or Greece and Turkey. It would also avoid any conflict with Turkey (or possibly Egypt) that any pipeline option would entail. It would also strengthen and cement Cyprus' position as a regional energy hub, especially if the LNG plant/terminal is located, as planned, at Vassilikos on the southern coast of Cyprus. This plant would be connected by subsea pipelines to the Israeli Leviathan gas field and the Cyprus Aphrodite gas field, as well as any future gas fields yet to be discovered.

For Israel, it would avoid any domestic opposition to situating the LNG terminal on Israeli territory given the potential environmental threats and the heightened threat of sabotage such a target would present if located in Israel proper. Given Cyprus' dire economic situation and its precarious political circumstances and the ever present Turkish military threats, any fears of sabotage are likely to fall on deaf ears in Cyprus. Of course Israel would have to extend its naval presence and defense umbrella to encompass the southern coast of Cyprus but this is in line with Israeli defense planning in any case. However, the cost of building a new LNG facility will also be high, although less than the projected cost of a pipeline to Greece. Building costs are estimated at \$10 billion for the initial terminal and one liquefaction unit, with the cost increasing by an additional \$8b and \$6b, if in the future a second and third unit is added respectively.⁴³

But there are other benefits to LNG over pipelines for both Israel and Cyprus over the long run; namely, reliability and thus the security of their export markets. Much has been made of Israel-Cyprus-Greece providing a southeastern energy corridor for Europe which would diversify European energy supplies and contribute to European energy security by providing Europe with an alternative to Russian energy sources and supply lines (especially bypassing Ukraine), as well as an alternative to a Turkey-Greece-Bulgaria energy corridor (thus bypassing Turkey). However, with rapidly increasing world natural gas energy supplies and the diversification of natural gas energy sources, including the growing availability of US LNG directed for export, it behooves both Israel (and Cyprus) to look both east and west for their natural gas exports. Not only

is the demand for natural gas in Asia growing at 3.3% per year versus 0.7% per year for Europe⁴⁴ but the price is 50% higher.⁴⁵ Unless, Israel is prepared to construct a pipeline to the Red Sea, a highly unlikely proposition given the experience with the Egyptian pipeline, the export of natural gas through the Suez Canal to markets in Asia would have to be in the form of LNG. Of course any Israel-Egypt energy partnership would preempt a Cyprus LNG option in the short-run, but it is doubtful that the Israeli defense establishment would agree to an export strategy that relied solely on Egypt even if backed by the current Egyptian leadership under el-Sisi.

In fact, LNG is exactly the intent of the memorandum of understanding signed with the government of Cyprus on June 26, 2013, by the Delek Group and Noble Energy, the companies currently developing the major offshore gas fields discovered so far in both Israeli and Cypriot waters. The Memorandum of Understanding (MoU) aims to put in place the basic terms of a formal agreement to develop a joint two-train LNG plant at Vassilikos on the southern coast of Cyprus, with operations to start in 2018-19. However, it is not clear what the intentions of Israel are at the present, given that Israel has since the signing of that agreement proceeded to accepted bids for a pipeline to take gas to Turkey east of Cyprus (March, 2014). More than likely, Israel is keeping all its options open and will not reveal its true or final intentions till it chooses to.

However, no nation has yet approved the construction of a LNG plant primarily designed to serve its own resources but to be located in another country. It would certainly raise security questions and inevitably increase the cost of providing de facto military security for such an installation as well as security in the naval region stretching from the coast of Israel to the southern coast of Cyprus where the Israeli and Cypriot gas fields lie. Not only are there logistical and technical concerns for such a prototype arrangement, but undoubtedly a significant financing commitment would be necessary on the part of Israel as the cost of such a LNG processing plant and terminal would be in the range of \$10-15 billion plus. A project of such proportions is clearly beyond the means of Cyprus to manage single-handedly, even if it was not beset by its recent financial woes. However, even if financing was not a constraint, Cyprus proven natural gas reserves thus far cannot justify the cost of a LNG processing plant and terminal plus additional supporting infrastructure. Without Israeli gas and Israeli financial participation, Cyprus' energy future is

less than encouraging. It would also require international energy companies to weigh their commitment to such a project given that Turkey has threatened to deny these companies access to Turkish investment projects if they participate and even resorting to military action. Given the size and rate of growth of the Turkish 'emerging market' economy in comparison to the non-existing economic clout of the Cyprus economy, Turkish economic threats will no doubt be studied closely by all concerned.

Of course there is still the option for Israel to go it alone, an option that increases in probability the longer an agreement between Cyprus and Israel fails to materialize, but that would require building a LNG plant in Israel itself, which, given its limited Mediterranean coastline, would likely cause serious environmental protests. Another option would be to develop floating LNG terminals or floating production, storage and offloading (FPSO) ships, which again are not free of environmental dangers, and of course either option would constitute an obvious target for missile attack and sabotage. These domestic options undoubtedly would come at no lesser cost than the Cyprus LNG option for Israel.⁴⁶ Such a decision on the part of Israel to go it alone with its energy development would constitute a severe blow to Cyprus' energy future and of course to the resuscitation of the Cyprus economy.

Conclusion

Partnerships between disparate parties are never easy and the potentially mutual beneficial energy relationship between Cyprus and Israel is a case in point. While there are many benefits to such a partnership, it remains precarious and elusive for the time being. Israel is clearly the dominant partner in this relationship; and Cyprus, while attempting to appear decisive and bold in its declarations, is in fact treading water awaiting decisions taken in Jerusalem and not in Nicosia. However, time does not stand still, forcing short run actions on the part of both Cyprus and Israel, which are in their respective national interests but which might not be mutually beneficial or in the long run interests of a Cyprus-Israel energy partnership. Cyprus on the one hand feels more threatened and vulnerable than at any time since the Turkish Invasion of 1974, coming off its recent financial and economic crisis and pressured by European and US allies to compromise on the Cyprus Problem; while Israel is emboldened by its new-found energy position and fast growing economy, the

weakness of any Palestinian opposition, the on-going Syrian civil war, the dysfunctional Iraqi state, and more broadly the unraveling of the Arab Spring revolution particularly in Egypt.

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The Energy Factor in Eastern Mediterranean Relations

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RÉSUMÉ

Cet article examine les perspectives pour les pays de la région de la Méditerranée orientale à coopérer dans le secteur de l'énergie, en particulier pour la ressource de gaz naturel, potentiellement lucrative. Il fait valoir que plusieurs facteurs semblent inhiber leur capacité à parvenir à des accords sur la coopération bilatérale ou multilatérale. L'article examine l'impact de l'histoire sur la capacité des pays de la région à travailler ensemble. Il examine aussi l'effet du développement inégal de l'exploration et de l'exploitation des ressources de gaz des pays de la région, sur leur capacité de coopérer, qui handicapent leur capacité à résoudre les querelles persistantes sur la délimitation de leurs zones économiques exclusives. L'article conclut que les pays de la région ne sont pas tout à fait prêts à travailler en collaboration, malgré les avantages évidents de l'action collective.

ABSTRACT

This paper discusses the prospects for the countries of the Eastern Mediterranean region to cooperate in the energy sector, especially on the potentially lucrative natural gas resource. It argues that several factors seem to inhibit their ability to reach agreements on bilateral or multilateral cooperation. The paper considers the impact of history on the regional countries' ability to work together. It also examines the effect of the regional countries' uneven gas exploration and exploitation on the ability to cooperate, which handicap their capacity to resolve the lingering exclusive economic zone feuds. The paper concludes that the region's countries are not quite ready to work in collaboration despite the obvious advantages of collective action.

1. From Transit Pipelines to Indigenous Hydrocarbon Resources: East Mediterranean Age of Gas Dawns

Largely deprived of natural resources, the countries of the eastern Mediterranean basin were previously content to have their seaports serve as

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terminals for Saudi and Iraqi oil pipelines. In 1934 the Iraq Petroleum Company (IPC) laid out oil pipelines to Haifa and Tripoli. It also constructed two oil refineries, one in Haifa in 1939 and another in Tripoli in 1940. Similarly, the Arab-American Oil Company (ARAMCO) initiated the construction of a Trans-Arabian Oil Pipeline (TAPLINE) to Haifa; however, the creation of the state of Israel in 1948, shifted the company's TAPLINE to Sidon in southern Lebanon, where oil transports started in 1950. Simultaneously, IPC sought to make up for the loss of its Haifa terminal by laying out an oil pipeline to Baniyas on Syria's Mediterranean coast, which became operational in 1951. Frequent oil transport disruptions thanks to political rivalry between Iraq and Syria, demands for higher transit fees, Arab-Israeli wars, and the inception of the age of super tankers eventually relegated the pipelines and the refineries to dereliction.

Following the beginning of the Iraq-Iran war in 1980 the Syrian regime, who chose to side with Iran against Iraq, closed down the Baniyas pipeline. In 1982, the Iraqi government collaborated with Turkey to construct an oil pipeline from Kirkuk to Ceyhan as a substitute for Baniyas. In 2013, the Kurdistan Regional Government (KRG) constructed a pipeline from the Taq Taq oil field to Faysh Khabur, on the Iraqi border with Turkey, where it was connected to the Kirkuk-Ceyhan pipeline that had been disused since the U.S. invasion of Iraq in 2003.

Preliminary offshore exploration in the eastern Mediterranean between 1977 and 2002 produced encouraging seismic data about the existence of significant natural gas reserves in the Levant basin that compromises the exclusive economic zones (EEZs) of Syria, Cyprus, Lebanon and Israel.¹ Subsequent exploratory studies in the Levant Basin, which is the focus of this paper, estimate that it contains a "mean probable undiscovered natural gas of 122 trillion cubic feet (tcf)." ² This brings to the fore the great importance of cooperation among the countries of the Levant basin in jointly exploring and exploiting promising energy resources. This matter assumes priority in view of the fact that the region "...continues to discover and develop hydrocarbon resources, the pressure to increase its role as an important energy hub is likely to increase."³ This paper argues that the ability of the countries of the eastern Mediterranean to cooperate on energy matters is constrained by their historical legacy, as well as their inability to resolve lingering political and territorial issues. In view of its stated objective, the paper seeks to demonstrate that these

countries' failure to cooperate is largely determined by the uneven stages of their exploration and exploitation efforts, in addition to their inability to reach compromise solutions to the divisive EEZ issue.

The energy reserves of the eastern Mediterranean do not exceed "...one percent of the world's total proven reserves of oil and natural gas... [and their] combined proved reserves – slightly more than 2.5 billion barrels – are far less than found in other nearby regions, such as Mediterranean North Africa (65 billion barrels)."⁴ Nevertheless, the Levant Basin can provide for the entire natural gas needs of its countries, as well as part of the growing energy needs of Turkey, Europe and the Far East. Despite their domestic and interstate difficulties, these countries have no option except to find ways to overcome the burden of history. Even though as of the first months of 2013, Cyprus and Lebanon did not have significant proven reserves of natural gas "...successful offshore exploration in the Levant Basin over the past several years means that the level of reserves should soon change in Cyprus... Planned exploration in Lebanon could uncover recoverable quantities of... natural gas in the coming years."⁵

2. The Levant Basin Gas Fields

Proven gas reserves in the Levant Basin have been growing steadily over the past few years. In 2000, for example, "Israel held proved reserves of natural gas totaling just 10 billion cubic feet (bcf). As of January 2013, that total was 9.5 tcf, with recent offshore discoveries likely to boost that figure even higher."⁶ Cyprus' Aphrodite field in Block 12, which was discovered in 2011 by Noble Energy is set at 7 tcf; Israel's Tamar field of 2009 has a 10 tcf production capacity, whereas its large Leviathan field, discovered in 2010, has 18 tcf gas reserves.⁷ The latest discoveries in Israel's EEZ have eclipsed its Mari-B field's 1 tcf gas deposit, which began production in 2004, as well as Noa and Pinnacles fields whose total combined reserves do not exceed 1.2 tcf of gas.⁸ "As of January 2014, natural gas resources discovered in Israel and the Republic of Cyprus amount to 1,100 bmc. And yet, the region remains one of the world's most underexplored or unexplored areas, despite having good prospects of natural gas – and, perhaps oil – reserves."⁹

Early offshore seismic studies estimate that the southern part alone of Lebanon's EEZ contains about 12 tcf of natural gas. Lebanon's gas reserves have not yet been sufficiently studied, although the government in Beirut

believes there are at least 25 tcf in its offshore territory.¹⁰ Recoverable gas from Gaza Marine, which was discovered in 2000 by British Gas Group (BG), has meager reserves of 1 tcf. Most of Syria's proven natural gas reserves, which are placed at 10.6 tcf are onshore in the eastern part of the country.¹¹ There is no word as of yet on its offshore gas reserves. There is little doubt that extensive exploration will reveal more exploitable gas resources. The geological structure of the Levant basin is similar across its EEZs. Interstate conflict, political turmoil and domestic violence have coalesced to prevent the region from realizing its lucrative energy potential.

3. Traumatic Past

The eastern Mediterranean region has had a tumultuous history. Its states formed fairly recently with Greece taking the lead. It wrested its independence from the Ottoman Empire in 1832 after an 11-year war of independence. Greek independence had not buried the hatchet with Turkey, the inheritor of the defunct Ottoman Empire. The Turkish war of independence (1919-1923) had widened the chasm between Greeks and Turks, especially in the Aegean Sea. Memories of hostilities affected the status of Cyprus that Britain administered from 1878 until it obtained its independence in 1960. It did not take long for the political and security situation in the bi-national state to implode. In November 1963, Cyprus' Turkish leaders rejected President Makarios' constitutional amendments to reallocate the share of the Greek and Turkish communities in running the machinery of the political system on a 70% to 30% respectively. Communal fighting ensued immediately and escalated in August 1964 when the Turkish air force participated in the fighting, especially in Kokkina. In July 1974, Greek Cypriot nationalists committed to Enosis (unity of Greece and Cyprus) staged a failed coup in collusion with the Greek military junta who took charge of Greece after the April 1967 coup d'état. Ankara capitalized on this event to impose Taksim (the separation of the two communities in Cyprus) and invaded the island's northern part. The unilateral declaration of the internationally unrecognized Turkish Republic of Northern Cyprus (TRNC) took place in November 1983. Nevertheless, the Greek-controlled Republic of Cyprus (RoC) received de jure recognition by the international community, which included jurisdiction over the island's territorial waters and exclusive economic zone (EEZ).

The disintegration of the Ottoman Empire in 1918 brought Syria and Lebanon under French mandatory rule (1920-1946), whereas the British mandate of Palestine lasted from 1920 until 1948, when the state of Israel came into existence. The creation of independent states in Syria, Lebanon and Israel brought stability neither to them, nor to neighboring countries. Israel has been locked in a state of enmity with its Arab neighbors, including those with whom it signed peace treaties. In Syria, arbitrary rule and regime despotism will put eventually the country into an open-ended civil war that has been raging since March 2011. The introduction of confessional politics into Lebanese politics did not ensure balanced representation. Since independence, Lebanon endured two civil wars, one in 1958 and another during the 1975-1999. The Ta'if Agreement of September 1999 aimed at restructuring the Lebanese political system and ensuring fair sectarian representation. Plagued by endemic foreign intervention and the prevalence of clientelism prevented the Lebanese from reaching terms on smoothly running national political affairs. Public-sector stagnation and political immobilism have become the order of the day in Lebanon.

4. Failure to Cooperate

Were it not for the notable exception of Israeli-Cypriot relations, the countries of the Levant Basin seem impervious to cooperation. Part of the problem may have to do with the fact that none of the countries of the Levant Basin has begun to develop its gas export infrastructure. It has been noted that the countries of the Levant Basin are confronted with “ a host of trans-boundary problems in terms of getting its output to market, exacerbated by the different stages of development in the region.”¹² One would say there is no longer a reason for the Israelis to complain “about how Moses led his people through the desert for 40 years to reach the one place in the region with no oil.”¹³ One of the major gas-related issues Israel is confronting has to do with the difficulties it is encountering in finding regional partners to cooperate with. In 2001 Ariel Sharon stressed that “...Israel would never buy gas from Palestine... and in 2003 he vetoed a deal that would enable British Gas to supply Israel with natural gas from the Gaza wells.”¹⁴

Israel has been unwilling to cooperate with the Palestinian Authority on the utilization of gas off Gaza shore. Hamas' control of Gaza in June 2007 had

further complicated the already thorny issue of getting the two sides to work together. There are reasons to assert that Israel "...has been obstructive to the PA's own natural gas exploitation opportunities. Gas was discovered by British BG Group in waters that would comprise Gaza's EEZ. However, political difficulties made it impossible to tap and transport the gas – not only is the PA not a member of the UN Convention on the Law of the Sea (UNCLOS) and hence has not declared its EEZ."¹⁵ Israel occupied the Gaza Strip between 1967-2005 and continues to control its airspace and territorial waters. Palestinians reject Israel's negotiations and describe them as rude thievery in broad daylight. They often compare them to 'a modern-day Balfour Declaration.'¹⁶

There is no question that both Turkey and Israel understand the need for both of them to cooperate on energy matters, but they have not yet been able to overcome the obstacles, which involve other thorny issues (Cyprus and the 2010 Mavi Marmara incident). Both Israeli and Turkish officials have articulated the importance of laying out an Israel-Turkey pipeline for promoting mutual economic and political interests. Israeli policy seeks to improve its economic relations with Ankara, without ignoring the necessity for developing parallel deals with Nicosia. Therefore, the perceived need for a pipeline to Turkey serves as a step that "...fits in with Israel's strategy of exploring regional markets first before venturing further afield and is one of the most cost-effective export options for the Leviathan field mooted by the Israeli government and the Leviathan partners."¹⁷ The Israeli view is that such a pipeline gives it access to the largest growing market in the region, as well as the possibility of securing a share of the European market. Israel interest in the Turkish pipeline does not deflect its attention from the opportunities provided by LNG exports to Europe and East Asia. Because Israel is having difficulty convincing its strong environmentalist lobby about the merits of building an LNG plant on its coast, the "Greek Cypriots' planned LNG terminal is a practical way around this problem given the short distance between Israel's offshore fields and its newfound friendship with the Greek Cypriots."¹⁸

Nicosia has been trying to sway the U.S. about the suitability of Cyprus in developing the regional natural gas infrastructure and as a bridge that can bring the countries of the Eastern Mediterranean to work together in collaborative efforts. As part of this ambitious endeavor, Cypriot Minister of Energy Yiorgos Lakkotrypīs travelled to Washington, where he met with

congressmen and Department of State representatives in a bid to enlist their support for making Cyprus a regional energy hub. The RoC sees itself "...as an important location to help diversify Europe's energy mix and lessen reliance on producers like Russia and Mideast suppliers."¹⁹ Cyprus needs to convince Israel who has more proven gas reserves than its own to transform its interest in cooperation into concrete measures that leads to the development of the Vassilikos LNG terminal. "Israel certainly has more discovered natural gas resources than Cyprus. The estimated gas in Israel's "Leviathan field is around four times larger than the estimates to date for Cyprus' Block 12."²⁰ Serious hurdles still prevent the concretization of the RoC's gas hub ambition. This has to do primarily with the fact that "...to date, Aphrodite, is currently insufficient to justify a major export-oriented project. And Lebanon has yet to even implement its current offshore block award program."²¹

There are seemingly convincing reasons why the RoC believes the proposed Vassilikos LNG facility is feasible:

*First, LNG can be sold to Asia, where demand is expected to grow much faster than in Europe. Second, LNG, together with the Vitol oil terminal that is currently under construction and due to be completed in July 2014, will bolster the RoC's position as a regional hub, which has related benefits for security. A likely third reason is that Greek Cypriots are probably very wary of depending solely on a route via Turkey for their most promising export.... The grand plan is that this plant would process not only Cyprus gas but also potentially gas from Israel and Lebanon, thus 'making it possible to create a world class LNG hub at Vasilikos.'*²²

Unless it finds more gas in its EEZ, it will be difficult for Cyprus to make the case for building the expensive LNG plant at Vassilikos. If not, the Israelis will most probably go ahead with pumping their gas via "...a subsea pipeline across or around Cyprus, or whether it might opt for an LNG facility."²³

Cyprus cannot plan its oil strategy on processing Lebanon's natural gas potential in its LNG facility. Lebanese politicians have daunting domestic problems to resolve on sharing the spoils of their gas finds before they can make promises to the RoC. Since an LNG facility is suitable for shipping gas to distant markets, such as those in the Asia/Pacific region, there is a strong need for making long-term export commitments, especially because of the high cost of

facility construction, including “...shipping, and regasification facilities, and to provide some kind of link to ensure that developers can profit from any subsequent, more-general increase in energy prices.”²⁴ Cypriot officials attach paramount significance to constructing the LNG facility. In fact, this issue has assumed national dimensions and Cypriots equate between the fruition of this ambitious goal and the attainment of the country’s economic development. “Even if there are a few Greek-Cypriot politicians who would be ready to discuss a ‘Turkish’ pipeline as a parallel option to the Vasilikos LNG terminal, no one would be ready to drop Vassilikos in favor of a pipeline option, especially if it would end up to Turkey.”²⁵

In making the case for the Vassilikos facility, RoC officials argue that the proposed Leviathan-Ceyhan Pipeline (LCP) creates for Israel an imbalanced trade relationship with Turkey. Even “...if Turkey consumes by 2020 up to 8 billion cubic meters (bcm) annually of Israeli gas [equal to 43% of Israel’s entire export potential], it would be dependent on Tel Aviv for merely 13.79 percent of its projected demand, estimated by BP at 58 bcm/y.”²⁶ Should it be possible to transit Israeli gas through Turkey’s National Gas Transmission System (NGTS) all the way to its border with Bulgaria, there is no pipeline available to carry the Israeli gas to Austria’s distribution station in Baumgarten.²⁷ In view of the Cypriot argument about the impracticality of the Turkish pipeline option, a Cypriot LNG plant “...ensures a higher level [than the LCP] of demand security from the exporter’s point of view.”²⁸

Taking the natural gas issue beyond technical aspects Endy Zemenides, the executive director of the Hellenic American Leadership Council called for the formation of an energy triangle by Cyprus, Israel and Greece to usher in “... the first Western, democratically controlled source of energy in the Middle East...an arc of democracies that will serve as a bulwark against [regional] instability.”²⁹ Cyprus’ determination to develop its gas sector has become an overriding fueled by the “...promotion of the national cause against Turkey [and] the way out of the economic crisis...”³⁰ Greek Cypriot officials are completely opposed to engaging their Turkish counterparts in bilateral talks. For them, the legitimate jurisdiction of the RoC over its EEZ is nonnegotiable. They believe that Turkey is trying to put “...the unrecognized TRNC [on a par] with the internationally recognized legitimate state, the RoC.”³¹ Nicosia’s decision to exclude the island’s Turkish community from gas exploration in its

EEZ has upset Ankara who would like to see an agreement between the two communities on revenue sharing.³² Nicosia accepts the principle of revenue sharing, although it adamantly refuses to recognize the de jure existence of the Turkish Republic of Northern Cyprus (TRNC). This has driven Ankara to opt for retaliatory measures, including signing a continental shelf delimitation agreement with TRNC “...whose president, Dervis Eroglu, described as a precautionary measure to make our Greek counterparts to desist.”³³

Despite the official standoff between Lebanon and Israel regarding the delineation of the latter’s EEZ, there are reasons to assume that Lebanon’s primary problem is domestic and has to do with the country’s conflict-ridden sectarian mosaic. According to former Lebanese Minister of Energy Gebran Bassil, “...Israel has no interest in encroaching on Lebanese reservoirs... But there are local interests that would like to see work in the energy sector delayed further...”³⁴ The ability of Lebanon to tap its natural gas potential depending on its ability to overcome the “...long-stalled offshore bid licensing round.”³⁵ Due to the confessional nature of Lebanese politics, which requires the inclusion of the country’s major sects in legislation, it became necessary to establish a petroleum administration. It took two years of difficult bargaining to finally agree on the structure and members of the Lebanese Petroleum Administration (LPA).

Companies interested in bidding hoped that the Lebanese cabinet would approve the necessary decrees that determine the number of blocks and sort out revenue sharing issues in plenty of time for them to submit their bids by August 14, 2014.³⁶ This did not happen and the bidding deadline was delayed for a third time. Oil companies seemed perplexed by the unnecessary and inexplicable delays, and bemused by the strict “...financial stipulations set out by the Lebanese government... [that] may dissuade oil companies to drill for gas.”³⁷ It has been aptly noted that:

*The tax regime proposed by Lebanon, which includes the imposition of taxes on profits – is exorbitant in view of the existing dangers. Sounds like trying to sell the fish before catching it. Instead of assuring the oil market about the political dangers, the Lebanese scared everybody.*³⁸

The Israeli government was taken aback by the Egyptian unexpected decision in 2012 to abrogate its natural gas export agreements that provided Israel with 40% of its total supply needs.³⁹ In view of the increasing political

and security instability in the Eastern Mediterranean and the deterioration of its close ties with Turkey since the Justice and Development Party (JDP) rose to the helm of power after its first landslide victory in the 2002 general elections. Untoward developments related to insecurity and attendant unpredictability “...have precipitated a buildup of naval forces in the Levant basin from a number of state actors wanting to get in on the action.”⁴⁰ Cutthroat diplomacy appears to have convinced the countries of the region to invest more funds in developing their navies. For example, Israel is currently in “...the process of creating the most technologically advanced fleet in the eastern Mediterranean.”⁴¹ Not missing an opportunity to contribute the already tense regional environment, then Turkish Prime Minister Recep Tayyip Erdogan in 2011 warned Israel that it “...cannot do whatever it wants in the Eastern Mediterranean. They will see what our decisions will be on this subject. Our navy attack ships can be there at any moment.”⁴²

5. Exploration and Exploitation Efforts

Israel has pioneered the other countries in the Levant Basin in exploring and exploiting gas. In April 2013, it embarked on exploiting the reserves of Tamar field, which has the capacity of fulfilling its domestic consumption for at least two decades.⁴³ Israel has plans to exploit the huge Leviathan field by 2017. Officials in Nicosia “aim to capitalize on the exploration success in Block 12 to pursue additional resources in Cypriot waters, and hope to discover between 30 and 40 tcf of additional natural gas.”⁴⁴ In response, Turkish Petroleum (TP) launched an effort to drill for gas off the TRNC coast.⁴⁵ Lebanon’s exploration is in its early stages of licensing and there are no indicators that it will get underway any time soon, whereas exploration in Syria is postponed pending the end of its civil war that appears to be protracted.

The government of Lebanon completed a pre-qualification bid for exploration in the country’s territorial waters in April 2013. Fifty-two companies—including Chevron, Total, ExxonMobil, and Shell—applied for pre-qualification, and 46 of those had their applications accepted, but not much has happened since then.⁴⁶ Internal endemic divisions, and the scramble to win the biggest chunk of the hoped for gas dividends, have invited acerbic criticism from Lebanese commentators:

In order for Lebanon to defend its right to its natural resources, especially against Israel... it must at the very least respect its own plans and timetables... when approving the decrees on EPAs [Exploration and Production Agreements] and offshore blocks, and then granting concessions, exploration and drilling must begin in the southernmost part of the EEZ, because there are no sovereign issues in the north or the center.⁴⁷

Aside from the promise of additional natural gas finds, and despite the hitherto unresolved exploration and exploitation issues, the Eastern Mediterranean region has shale oil, which is still considered an unconventional energy source. There, shale oil resources "...have not developed to the same extent that they have elsewhere in the world."⁴⁸ Syria's oil shale resources approximate 50 billion tons, and Jordan's about 65 billion tons."⁴⁹ Israel's shale reserves are about the equivalent of 250 billion barrels."⁵⁰ Israel is already considering the large-scale development of its shale deposits that may place the country as a leading shale developer and utilizer after the U.S. and China.⁵¹ New shale processing technologies are making the processing of shale oil cleaner and more efficient.

Israel has not shown a real interest in cooperating with the PA to explore the gas potential off Gaza's coast. "In September 2012, the Palestinian Authority and Israel discussed developing the offshore Gaza territory, although no firm agreements are in place."⁵² The nonstate status of the PA serves as a disincentive for Israel to seriously negotiate gas matters, especially since Hamas continues to control the Gaza Strip.

6. The Exclusive Economic Zone (EEZ) Dilemma

Political analysts warn that the enormous problems in which the countries of the Eastern Mediterranean find themselves struggling to cope with make it exceptionally difficult to resolve. It seems their acrimonious historical memories stand in the way of compromising and reaching reasonable policy outcomes.⁵³

In 2010, Lebanon supplied the U.N. Secretary-General with its "...geographical coordinates for the delimitization of [its]... EEZ. Obviously, these coordinates [based on the 1949 armistice line between Israel and Lebanon] do not coincide with those used in the agreement between Cyprus and Israel

[based on the working Blue Line of 2000, following Israeli withdrawal from south Lebanon.”⁵⁴ In supplying these coordinates, Lebanon filed a claim concerning a 250-square nautical mile area with Israel, and sought both U.N. and U.S. assistance in resolving the dispute. The two countries, who are officially in a state of war and do not exchange diplomatic missions, went to the extent of resorting to issuing belligerent statements. Thus, in July 2011 Israel Minister of National Infrastructure Uzi Landau threatened to resort to military action “...to protect not only the rule of law but the international maritime law.”⁵⁵ A year later, Hizbullah chief Hasan Nasrallah warned to target Israel’s gas facilities should it encroach on Lebanon’s EEZ] and steal... [its] resources.”⁵⁶

A U.S. diplomat who sought to bridge the gap between Lebanon and Israel with regard to their EEZ dispute could not hide his frustration and disappointment at the seemingly insignificant EEZ dispute between the two countries:

*There is nothing complex about the Lebanon-Israel case in terms of their coastline or the methodologies they used in assessing conflicting claims. Indeed, if they had had diplomatic relations this relatively minor disagreement would have either been long-since resolved or may not have arisen at all.*⁵⁷

It recently transpired that Amos Hochstein, U.S. deputy assistant secretary for energy diplomacy worked out in April 2013 an undisclosed agreement between Lebanon and Israel regarding the establishment of a maritime security zone (MSL) as a buffer zone and observed that no energy related activity could take place without the consent of both governments.⁵⁸ Cyprus sought to use its good offices to resolve the standoff between the two countries, although its efforts to break the impasse made no headway. It has been claimed that Cypriot interest in resolving this dispute emanates from Nicosia’s interest in involving Israel and Lebanon in its energy plans, especially the LNG facility.⁵⁹

Since he had previously played down the matter, it might be difficult to rationalize former Lebanese energy minister Bassil’s warning about the likelihood that Israel “...might steal Lebanon’s share of [gas].”⁶⁰ Bassil, a Maronite Christian, was actually trying to create an atmosphere of urgency in Lebanon to convince Lebanese Shiites to yield to his preference for granting

oil companies exploration licenses in blocks not contested with Israel, i.e., off the Maronite populated Lebanese coast.

In connection with his efforts to invite bidders for two blocks other than those off the southern Lebanese coast, which is opposed by Shiite leaders, Bassil sought to enlist the backing of the Lebanese president, the acting prime minister and the speaker of the parliament in order to convene cabinet and parliamentary sessions to approve his bidding plan. He reasoned that this would be "...the only way for Lebanon to safeguard its offshore resources and prevent them from being appropriated by others."⁶¹ When his efforts failed to impress leaders of the Shiite and Sunni communities who respectively control the parliament and the cabinet, Bassil claimed that Israel might be involved in horizontal drilling to encroach on Lebanon's EEZ, but "...a geologist with PetroServe International noted that it would not make sense for a company to employ horizontal drilling to blindly move from one reserve in search for another."⁶² Carole Nakhle, an energy economist at British Surrey Energy Economic Center, shrugs off Lebanese politicians' squabbling and procrastination to act. She says "...investors in the oil and gas sector are used to taking risk and companies take a long-term perspective.... But if I look at the maritime borders this can be a disincentive for investors in Lebanon."⁶³

It is unlikely that gas finds in Israel's Aphrodite-2 well will create problems with the RoC. The two countries have already shown great capacity for cooperation amid realization that they need each other. Even if "...the Aphrodite-2 prove[s] to be part of the same structure as Cyprus' field [which may have over 3 tcf of technically recoverable resources]... the two countries should be able to negotiate a utilization agreement before production begins."⁶⁴ Whereas the EEZ delimitation between Israel and Lebanon is more of a domestic problem in the latter's political system, the RoC maritime travails lie with Turkey who never ceases to describe "...Nicosia's exploratory drilling as 'nothing but sabotage of the negotiation process between Turkish Cypriots and Greek Cypriots."⁶⁵

7. Parting with the Past and Transcending the Present: The Logic of Collective Action

Russia's annexation of the Crimea and turmoil in Ukraine are prodding the EU to expedite the search for substitutes to Russian gas. The countries of the eastern Mediterranean have a unique opportunity to take advantage of their

natural gas potential to bury the hatchet and usher in an era of collaborative work that can work in their best interest. Yiorgos Lakkotrypis, Cyprus' Energy Minister expressed his hope that the "...discoveries of hydrocarbons in the eastern Mediterranean are definitely now an incentive, and it could be a catalyst for peace for the region."⁶⁶ In a likewise tone, Yossi Abu, chief executive of Israeli Delek Drilling, posits that even though "...Leviathan is actually the reservoir that can potentially bring Israel to be totally independent from an energy perspective and also position... [it] as an exporter of natural gas rather than importer... [it] can use the new gas discoveries as a bridge to have a better relationship with our neighbors."⁶⁷

In its bid to reduce its heavy reliance on gas supplies from Russia, Turkey has become central to shifting EU's energy policy. In connection with the new energy thinking, the EU is developing a Southern Corridor alternative that "aims at supplying Europe with gas directly from the Caspian basin and the Middle East [bypassing Russia]."⁶⁸ It is widely believed that the Eastern Mediterranean is likely to become a source of gas feeding the Southern Corridor, provided it can be linked to the planned Trans-Anatolian Natural Gas Pipeline (TANAP).⁶⁹ Charles Ellinas, the executive president of the Cyprus National Hydrocarbons Company (KRETYK), has said that with a lot more gas expected to be found offshore Cyprus, the Eastern Mediterranean region could supply up to a third of the EU's additional gas needs, which are expected to reach 100 bcm by 2025."⁷⁰

Gas alone is not a strong incentive to resolve the Cyprus problem, despite the fact that such a development would improve Turkey's relations with the European Union. The parties to the conflict have to understand that they need each other equally and avoid the other party to make more concessions. Any negotiations process that is not predicated on reciprocal respect, and placing oneself in the position of the other is bound to fail. It is only logical to propose that the discovery of natural gas in Cyprus' EEZ—even if more gas finds need to be made—is bound to expedite the peace process and convince the two parties to the conflict that the fruits of cooperation exceed ungainly polemical bickering. To be sure, the "...reasoning behind this question is that the commercial benefits of mutual cooperation on gas, as well as the geopolitical benefits of supporting the diversification of EU gas supplies, could constitute strong enough incentives for all parties to reach a settlement."⁷¹

There are indicators to suggest that this has not been the case yet. “Not only has unilateral exploration of natural gas... led to mutual tensions, it was arguably an underlying cause of the delay in the re-launch of the UN-sponsored inter-communal negotiations for a settlement of the Cyprus problem.”⁷² The RoC has been incapable of thinking on the gas issue with the TRNC except in terms of being the only internationally recognized government on the island. Therefore, it has “...the sovereign right to explore for natural resources in the Republic’s EEZ.”⁷³ The economic situation in both the RoC and TRNC is such that they can no longer afford to block each other. By 2010 TRNC debt to Turkey was estimated to exceed 80% of its GDP, whereas the debt/GDP ratio of the ROC is expected to peak at 126.2% in 2015.⁷⁴ Cyprus has still to recover from the 2013 banking crash that caused unprecedented socioeconomic woes and loss of trust in the country’s financial institutions. One aspect that hinders reaching a gas for cash deal has to do with the realization that “...each side perceives the other side’s need to be greater than its own and hence presumes that the other side has a greater need to solve the Cyprus problem...”⁷⁵ This type of wishful reasoning must be curtailed in the interest of the island at large.

The Lebanese are pinning their hopes “...on hydrocarbon revenues to turn around the country’s weak economy, which has one of the highest rates of public debt to gross domestic product (GDP) in the world,”⁷⁶ although they have not shown a modicum of willingness to cooperate outside narrow sectarian and personal interests. The upheavals in the broader region do not create an atmosphere that encourages divided Lebanese politicians to come to terms with one another. The stabilization of the region is a *sine qua non* for bringing the Lebanese together since they often report to regional patrons before committing themselves to any policy proposal. The same thing can be said about the relationship between the Palestinians and the Israelis. The Palestinians—even if there were no territorial issues with the Israelis—simply cannot develop their own gas infrastructure on their own. “Palestinian gas consumption remains negligible, at 45 million cubic meters per year (0.0001 tcf)...exploring the gas could lead to Israeli-Palestinian cooperation.... They need each other for the efficient development of... offshore reserves.”⁷⁷

Ideology still stands in the face of regional cooperation in the energy sector. Sooner or later, the countries of the Eastern Mediterranean will realize that

they need to put their differences aside. Realization may not be enough to get them to cooperate. What they seem to lack is the will to act. The proneness of the Lebanese to resolve their own domestic problems and cooperate among themselves remains debatable. Similarly, the enigma of Cyprus' Greek and Turkish communities' ability to overcome the burden of history has yet to be resolved. What is clear, however, is that, with or without a regional vision on energy cooperation, Israel will proceed with its ambitious energy plans either collectively or individually.

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Cyprus: A Case Study on how to Get an Economy into Recession and Keep it in the Muddle

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RÉSUMÉ

Les économies efficaces et bien gérées bénéficient autant de la confiance et du respect des citoyens, que des milieux d'affaires locaux et internationaux, des investisseurs et de tous les autres. Les économies mal gérées souffrent du manque de confiance qui les maintient dans un borbier et dans la confusion pendant de longues périodes avant de connaître la relance. Il n'est pas facile de retrouver la confiance une fois perdue. Il faut des années pour bâtir la confiance et seulement quelques jours pour la perdre. Un événement majeur, comme l'effondrement du système bancaire, peut littéralement détruire la confiance. Mais les événements catastrophiques ne se produisent pas tous seuls. Il y a d'innombrables mauvaises décisions et des années de mauvaise gestion économique avant qu'une catastrophe ne se produise. Les planificateurs économiques efficaces considèrent l'économie comme un système unifié plutôt qu'un ensemble de fonctions et d'industries individuelles et indépendantes. Une gestion de qualité n'est pas intéressée par des décisions ad hoc, mais plutôt par des décisions qui font partie d'un plan bien pensé. Les économies saines produisent des biens et des services de qualité et parviennent à les exporter parce qu'ils sont compétitifs. Les économies non compétitives ont peu de valeurs à exporter et se contentent, entre autres, de voir des terrains changer de mains à plusieurs reprises, avec l'illusion que "tout le monde gagne de l'argent." Comment tout le monde peut-il faire de l'argent? Les économies saines sont basées sur des faits concrets et authentiques tandis que les économies non sérieuses s'appuient sur des discours farfelus et une vision à court-terme. En examinant l'économie chypriote, l'auteur conclut qu'il a fallu 30 ans de mauvaises décisions (qui ont bénéficié aux intérêts étroits et particuliers de certains groupes et individus) pour mettre l'économie à genoux et en même temps ruiner la confiance globale. Il faudra un miracle pour inverser cette situation parce que la confiance est un concept multifactoriel, qu'il n'est pas facile de reconstruire une fois perdue. Les relations publiques, les paroles en l'air, les visions à court-terme ne peuvent pas restaurer la confiance perdue. La reprise de confiance fait appel à l'autocritique, dans le cas de prises de mauvaises décisions, aux remords sincères, au changement de mentalité et à l'abandon des comportements catastrophiques. La confiance peut être restaurée avec l'adoption d'un comportement honnête, sérieux et authentique et une action efficace et crédible.

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ABSTRACT

Efficient and properly-run economies also enjoy the trust and respect of citizens, the international and local business communities, investors and others. Badly-run economies suffer from lack of trust that keeps them in morass and economic muddle for long periods before experiencing any revival. Trust is not easy to regain once lost. It takes years to build trust and days to lose it. A major event, such as the collapse of the banking system, can literally shred trust to pieces. But catastrophic events do not just happen. It takes countless bad decisions and years of bad economic management before all these can build up to a catastrophic strike. Effective economic planners view the economy as a unified system rather than as individual and independent functions and industries. Quality management is not interested in ad hoc decisions but rather in decisions that form part of a well-thought-out plan. Healthy economies produce quality goods and services and manage to export these because they are competitive. Uncompetitive economies have little of value to export and enjoy, amongst others, seeing land change hands repeatedly under the illusion that “everyone is making money.” How can everyone make money? Sound economies work on hard facts and authenticity whilst less than serious economies rely on airy-fairy talk and short-termism. In reviewing the Cyprus economy the author concludes that it took 30 years of bad decisions (that benefited the narrow self-interests of some groups and individuals) to bring the economy to its knees and at the same time ruin trust comprehensively. It will take a miracle to reverse this situation because trust is a multi-factor construct that is not easy to rebuild once lost. Public relations, glib talk, short-termism and grasping at straws do not restore lost trust. Trust calls for seriousness, acknowledgment of bad decision-making, sincere remorse, change of mind-set and abandonment of catastrophic behaviours. Trust can be restored with honest, sound and authentic behaviour and effective and creditable action.

1. Long-term Costs of Recession

Under the title “*Counting the long term costs of the financial crisis*” the *Economist*¹ talks of wasted economic potential. The paper makes reference to the work of Laurence Ball of John’s Hopkins, Robert Hall of Stanford and to the findings of the OECD. The article supports that based on OECD Economic Outlook (December 2007 and May 2014) Greece lost about 30% of its *potential* economic output in the period 2007-2013. Spain lost 18%, the USA nearly 5% and Sweden lost about 8%. The article then forecasts, perhaps hastily, “*This year may be the first since 2007 in which all big advanced economies manage to grow.*” The essence of the article is that in these 6 or so years of economic crisis rich economies performed below pre-crisis expectations and below what seemed possible to achieve by these countries. The use of potential economic output

throws into sharp relief not only what economies actually lose when in a recession or when experiencing slow GDP growth but also what they lose in terms of what was once thought possible for them to achieve (their economic potential). “*Potential economic output*” is defined as the, “*highest level of production each economy could feasibly sustain without igniting inflation.*” The *Economist* notes that, “*By 2015 the weighted average loss among rich countries as a whole is projected to reach 8.4%—as if the entire German economy had evaporated.*” This is a depressing conclusion particularly as no one knows with certainty when this long recession will finally come to an end.

1.1. Economic Crisis through the Cyprus Paradigm

Through the Cyprus paradigm this paper attempts to explain how a recession can creep into an economy, causing damage to the short-term potential of the country and rendering quick recovery difficult. The author tries to highlight the importance of individual and group attitudes to creating and solving an economic crisis. Trust and confidence are central to economic recovery. When confidence in an economy is lost, its ability to bounce back is all but lost as well. Lose faith in the banking system and you cripple the economy. Bailing-in depositors through legislation is probably the fastest way to destroy confidence in an economy; particularly in the eyes of international investors. Cyprus is the only country in the EU (and in the West) to have done the unthinkable; to bail-in depositors. As a result investors and potential customers shun away from Cyprus’ banks and in the process destroy any prospects for quick and sustainable recovery. This paper takes the line that intractable recessions do not strike out of the blue; it takes a series of bad decisions over many years for the recession to gather pace and to mature.

Cyprus and Greece are classical examples of bad decisions, incompetence, failed judgment and most critically inability and/or unwillingness to reverse bad decisions once these proved to be detrimental to the economy. Policy makers and the political establishment in both countries had ample signs of an impending economic catastrophe but ignored these for the sake of short-term and transient economic and party political gains; winning the next election was often more important than saving the economy. Three examples help highlight short-termism in both countries: a) for decades both countries experienced low productivity; yet both succumbed to the temptation of rewarding public sector

employees above productivity, b) both countries registered prolonged dismal current account deficits; both imported much and exported little; yet they failed to address this most serious issue and c) both countries had a bloated public sector that in the case of Cyprus cost nearly 20% of GDP. Low productivity led to low competitiveness which in the end marginalized the economies of both countries. Decision-makers and policy-makers failed to understand the seriousness of not having a vibrant export economy. The political establishment: a) failed to understand that the public sector's mission ought to be service to the public and the business community at reasonable cost to the taxpayer and b) allowed public sector costs to balloon out of control for the sake of party political gains. And, when tragedy struck the political elite failed to appreciate the magnitude of the impending economic calamity. Equally, they failed to assess the (long) duration of the recession and as such took few measures before the arrival of the Troika. Ad hoc decision-making replaced integrated planning and selling land to each other at ever-increasing prices became respectable business.

Now that the realization is beginning to dawn unless the root causes of failure are tackled first, any recovery is bound to be short-lived and unsustainable with the country's economy remaining in a muddle. True recovery requires: a) root causes to be identified honestly and precisely and with self-interest playing no part in the process, b) those that played a major part in bringing the economy to its knees to show genuine remorse which will help them change their attitudes for the better, and c) major players in the economy to now put together a fresh and realistic reconstruction plan that would rest on sound foundations, and most importantly d) commitment not to revert back to old ways.

As things stand now the immediate economic future does not augur well. Some of the major contributors to the catastrophe are more concerned about exonerating themselves, and throwing the blame on others, rather than on finding sound solutions to major problems. Not owning up to one's past errors continues to bedevil the recovery process of the economies of Greece and Cyprus. Only the other day the author and a group of mostly university students attended a lecture by one of the central protagonists of the banking catastrophe who had showed criminal dereliction of duty and unfathomable incompetence in the events leading up to the financial crisis and soon after. For more than one hour the speaker pummeled his audience with the names of those that in his view were to blame: the former government, the European

Central Bank, the IMF, the bank boards and a host of others save himself; not a word about his own sins and striking incompetence. Not a shred of remorse.

Economies that lose the trust of local and international investors need to prepare for a long recovery process because trust takes years to build and days to lose. For example, under pressure from the Troika the government of Cyprus broke a major trust link when it asked parliament to enact laws that allowed banks to convert depositors' money into equity without their consent. This act (cunningly known as "bail-in" of depositors) was ostensibly done, in the government's words, "...to save the banks once and for all." Since then billions of additional money was poured into the banks as the bail-in failed to save them; the depositor money that was converted into capital is now worthless. Bail-ins have serious ramifications on trust, irrespective of whether these are justified or not. When a depositor puts his money in a bank "in trust" s/he does so on the assumption that honesty will always prevail and that the money will be there for withdrawal as per contract. Not even in their worst nightmares do depositors think of the possibility of an outside third party, government and Troika in this case, forcing the bank to take their money to "...save the bank." Insult adds to injury when the bank management and the government proudly and in many ways deceptively announce to current and prospective customers that, "*our banks are now fully capitalized and as strong as ever.*" The moral equivalent would be for a hotelier to boast /advertise to clients that his hotel is always in a spic and span condition because he never runs out of refurbishment money. He fails, however, to tell them that refurbishments are funded from the proceeds of sales of customer jewelry which the hotelier grabs from them by marauding their suitcases.

Every bank customer knows *a priori* that he risks losing his money in the event of the bank going bankrupt. But, in Cyprus' case no customer was ever told that he risked having his money taken to be converted into valueless capital whether he agreed or not with that. And in this lies the crux of the ruined trust that will haunt the Cyprus economy perhaps for decades. *Peter Drucker* once said something to this effect: it takes 21 years before the trust between a depositor and his cheating/thieving bank can be restored. International investors do not care about the reasons of failed trust. All they register is that here is a country that legislates in favour of taking people's deposits. In 1956 Egypt went through massive expropriation of properties (all "legal!") and

regrets it to this day because investors never forgot this even if 6 decades have gone by.

Trust extends to all fields of economic endeavor including the tax system (it's axiomatic that taxpayers are more willing to pay their taxes if they know that these go to good cause and are managed wisely). Outside investors are never happy to pay more taxes than agreed on account of changing tax laws (see Cyprus' new tax on registered companies and new property taxes). Broken promises have the nasty habit of coming back to bite the guilty party. Cyprus suffers from weak trust in more than one ways. The latest Global Competitive Index (GCI) puts Cyprus in 58th position (out of 144) on the factor of "*public trust in politicians*" and in 45th place on "*judicial independence*." The dismal 63rd place is reserved for Cyprus on the factor of "*favoritism in decisions of government officials*".²

Greece and Cyprus agreed with the Troika on austerity measures which basically call for three things: a) higher taxes, b) lower total public expenditures and c) re-organization, such as privatization of state organisations, down-sizing of the public sector, opening up of protected professions, etc. The first two steps are unlikely to bring the two countries out of the recession because in many ways these are counter productive. The third step is more long-term and its success will depend on whether the exercise is done properly and with the intention of making changes difficult to reverse.

The Government Revenues Side

In the last two years, and as the effects of the recession started to bite, Cyprus imposed a variety of new/additional *taxes* in an effort to ensure that the fiscus had enough money to meet its current expenses and particularly public sector employee salaries. This fact seems to be worrying businesses as the factor of "*tax rates*" was mentioned as the sixth worrisome problem for doing business in Cyprus; "*access to financing*" and "*inefficient government bureaucracy*" earned 1st and 2nd place respectively on list of barriers.

The problem for the government is that taxes and unemployment went up simultaneously necessitating more tax money for the unemployed and needy and leaving little money to spare. Indicatively, the tax position of Cyprus for the period 2010 - 2014 appears below, Table 1.

Table 1: Tax increases in the period 2010-2014

Tax on	2010 rates	Intervening period	2014 rates
Corporate tax	10%	12.5% starting 2013	12.5%
VAT	15%	17% -01.03.2012 18% -14.01.2013	19%
VAT on food (hitting mostly the poor)	0%	No change	5%
Interest received (euphemistically called “defense tax”)	10%	2012 – 15%	30%
Tax on dividends (euphemistically called “defense tax”)	15%	2012 – 17% 2013 – 20%	17%
Immovable property tax	0.025% rising to 0.04%	2012: 0.04% rising to 0.08% 2013: 0.06% rising to 0.109%	0.06% rising to 0.109%
Special levy on the salary of those holding a job	0%	2012: monthly salary of € 2500-3500 = 2.5% € 3500-4500 = 3% € 4501+ = 3.5%	Monthly salary of € 1500-2500 = 2.5%, € 2501-3500 = 3%, > € 3501+ = 3.5%
Income tax scales	€ 19500 -28000: 20% € 28000 -36300: 25% >36300: 30%	Same as 2010 with the additional step of > € 60,000 = 35%	Same as 2012

The hotel industry, hailed as the flagship industry of Cyprus’ recovery, is asked to pay a host of additional industry-specific taxes making it difficult for the tourist product to sell and for businesses to make adequate profit. These

dedicated taxes include amongst others: sewage tax, municipal tax, levies on overnight stay (1-2% of room rate,) municipal immovable property tax, beach tax and cleanliness tax. In addition hotels are asked to pay numerous other levies and to bear permit costs such as: Cyprus Tourism Organisation levy, permit to sell alcohol and tobacco, permit to exercise professional services, permit to practice the occupation of hotelier, swimming pool permit, petrol and gas permit, “wireless” levy, etc. Most importantly, and just like everyone else, hoteliers are asked to pay crippling electricity bills (remembering that hotels are to a large extent energy-guzzlers in summer) which in themselves include a host of other taxes.³

The high cost of electricity (partly on account of imbedded taxes) is a major problem for businesses; particularly those in manufacturing. In a recent interview the chairman of Cyprus Electricity Board admitted that taxes make up 20% of the final electricity bill to the customer. Thus, the higher the electricity bill the more tax to be collected by government. Cyprus generates over 4.5 billion kilowatt hours of electricity relying primarily on imported petroleum as energy source. It is reported that, “...consumers in Cyprus pay some of the highest electricity prices in the European Union”.⁴ At 0.17 per kWh Cyprus leads the list of the most expensive suppliers of electricity amongst EU member countries; ahead of Ireland, Malta, Spain and Belgium (in 5th position) in terms of expensive electricity. The countries with the least expensive electricity are: Lithuania, France, Greece, Latvia and Estonia (at 0.07 per kWh).⁵

Even though at the time of writing the government boasted a “primary surplus” in its finances, meaning that revenues exceeded expenses not including interest payments on loans, the situation looks volatile. Largely on account of reduced business activity, reduced spending and high unemployment. The main two tax sources: a) VAT and b) income and wealth tax for the period April – June, 2014 brought to the taxman these amounts: a) VAT: 335.4 million (18.5% reduction over the same period of 2013,) b) Income and wealth tax: 302.9 (17.4% reduction over the same period of 2013).⁶ For most governments taxes look like an attractive proposition because they are generally easy to impose. Such practices, however, when not applied in measure fail to yield much fruit in recessionary times; paying taxes has never made the taxpayer any wealthier and have never given him more money to spend to enhance the economy. This is particularly true when excessive taxes

are collected just to cover operating expenses rather than to invest in infrastructure projects.

2. The Government Expenditure Side

Government and Troika agreed on plans to reduce excess expenses which basically include reduction in: a) government operating expenses and b) targeted reduction of social benefits. Both these measures were long overdue considering that no government in the past dared touch these two expenses for fear of voter backlash in a political system that twice elected its State President on a swing of less than a 1,000 votes. The difficulty with the first category lies with the political strength of the unions (product of party politics) and other vested interests and their ability to create havoc when decisions don't go their way. The political establishment knows that their supporters can easily turn on them once they start taking away their benefits and "*acquired rights*;" morality plays little if any role in such cases. For example, retiring public sector employees are entitled to lump-sum payments from their employer plus monthly pension. This lump-sum is a defined end-of-service benefit (calculated on an agreed formula) that often exceeds 100,000 even for retiring middle-level staff. In addition, upon retirement public sector employees are entitled to a monthly pension equal to roughly 50% of last salary index-linked. Lump-sum and pension come from contributions of the employer save for a meager minute contribution by the employees.

The above exaggerated practice is hard to find in any other country and basically amounts to having two sets of old-age schemes for the same person: a) a defined benefit scheme (lump-sum) and b) monthly pension scheme. The Cyprus taxpayer is naturally annoyed with this outlandish practice particularly when the average pension for private sector employees is only a fraction of that of the public sector. Ludicrous and annoying as the lump-sum scheme may sound, one cannot be sure that public sector employees will give up this benefit without a destructive fight. If at the end they lose this benefit (only on account of Troika and perhaps only temporarily), they will for sure bring the issue back once the Troika leaves Cyprus in the knowledge that they will probably get it back on account of their voting power and party politics.

Expenses have already been reduced in the sensitive areas of health and education. Social benefits have been slashed and the bureaucratic barriers

raised to discourage from applying, even those that are genuinely entitled to the revised benefits. The biggest hurdle that the government has to negotiate is that of reducing significantly the public sector payroll that has been a consistent sore on the economy for the last 3 or more decades; too large and too expensive public sector and too inefficient. In the past, and when the real-estate bubble was at its peak, the government had few problems funding an expensive and extravagant public sector considering that large amounts of capital gains, taxes and other transfer fees from real-estate deals were filling government coffers. Now the property sector is all but dead.

For years the Cyprus taxman was elated with the real estate bubble as this provided a hefty 20% tax on capital gains plus huge transfer fees, bringing the total bill in the region of 30%. Much of the land sold was former agricultural land with little value prior to the bubble. With the bubble these values increased a hundredfold of the original in exceptional cases. As a result revenues for the government were sizeable and very tempting. These revenues financed the high salaries and benefits of public servants and catered for the limousines and first-class travel and executive suits of the higher-ups. The elite of the elite were beneficiaries of several and varied pension payments from the government /taxpayer on account of having served in several posts after leaving the civil service and earning full pension, e.g.: a) full pension on account of having completed the number of required years of service in the public sector, say 36 years, b) second pension for being appointed to the Civil Service Board after retirement and c) third pension for holding a cabinet post after five-years of service in the last post. Thus, the individual in our example earned two additional pensions from his original employer (government) the moment his employer had paid him full pension on account of his first appointment.

Flashed with capital gains and other taxes at the height of the real-estate bubble successive governments saw fit to employ thousands of supernumerary public sector employees that would also prove to be good supporters of the political party that helped them secure the appointment. Thus, a vicious circle was started that ended up with a crippling over-sized and expensive public sector that the current government is unable to pay unless it taxes heavily. The public sector payroll plus other sundry employment costs are still at a record of 21% of GDP whilst that of Germany's is a meager 7%.⁷ The falling GDP of Cyprus has kept the public salary bill more or less at the same percentage of

GDP as in the past, despite recent marginal reductions in salary and marginal shrinkage of public sector head count. As things stand the government has a lot of leeway to reduce public sector salaries and benefits and also head count. The government's ability to keep its books balanced will depend much on whether or not the public sector payroll is reasonable and in line with what responsible countries in the EU are doing.

The public sector was expanding dramatically up to very recently as did the power of the unions. Union heads were much-sought-after partners of political parties and of the political establishment. This led to the public sector salaries topping Cyprus' salary table; in contrast to what was happening in other EU countries. Whilst the annual median salary in Cyprus (including in the calculation public sector salaries) was in the region of 25,000, the annual cost to the tax payer of each public service employee stood at a whopping 55,000.⁸ Civil servants, and banking employees, became (and still are) the privileged class in the island with real average salary increases in the last 30 years of 4.1% and 4.8% respectively. Other unionised employee classes also did well from their close relationship to political parties but not as well as the former two classes (average real salary growth for all unionised employees in the last 30 years was 3.5%). The average productivity for Cyprus over the same period stood at a paltry 2%.⁹ The figures in Table 2 are self-explanatory.¹⁰

Table 2: Average real salary growth in the period: 1980-2009

Sector	Average annual % salary increase
Banks	4.8
Government	4.1
Local authorities and broader public sector	3.8
Trade and tourism	3.8
Construction	3.2

Public sector employees, and more so civil servants, are still a law unto themselves in that they work with little accountability towards the tax payer that funds their beyond-all-reason salaries and privileges. Public sector

bureaucracy is seen as the second most serious barrier to business.¹¹ The public sector is still invincible, often arbitrary in its decisions (too much discretionary decision making) and profligate. The standard of service of the civil service is the subject of continuous negative comment amongst the public. Literally not a single public sector employee has ever been dismissed for reasons of poor performance. In an effort to meet the Troika requirement of reducing civil service numbers by 4,500 by the end of 2016 the Ministry of Finance is trying to square the circle. Up to now the government was happy to reduce head count through voluntary and normal retirements as this entailed no political cost considering that voluntary retirement was accompanied by a generous bonus from the employer (courtesy of the taxpayer!). Interest in early retirement amongst public sector employees ebbs and wanes according to the tax regime applicable to severance bonus and end of service lump-sum. Up to Q1 2014 the number of employees leaving the civil service reached 2,732.¹² The Civil Service Commission now expects only about 100 employees to leave the service in the remainder of 2014. The current number of public sector employees appears below (one in five employees is currently working in the public sector) Table 3.

Table 3: Number of public sector employees 2013-2014

	Q1 2014	Q4 2013
Civil Service	53,475	55,188
Local Authorities	4,371	4,600
Semi-government	7,703	7,829
Total (public sector)	65,549	67,617

The relatively privileged position of public sector employees (and bank employees) persists to this day and notwithstanding the fact that the recession is throwing into poverty thousands of unemployed. An advertisement appearing on the site of a private, not unserious finance company, in August 2014 is indicative of the perceived privileged position of these two classes as regards security of tenure. This particular financing company encourages potential borrowers to apply for loans up to 10,000 provided, “a *civil servant*

or a *bank employee acts as guarantor*”! Incidentally, the interest rate for this type of loan stood at 6.75% flat rate (APR 12.50%).

The whole government expense-reduction exercise hinges on: a) how far the government is willing to go to reduce public sector head count and how fast it can do it, b) the government’s ability to reduce public sector salaries and benefits to bring them in line with other countries as percent of GDP, c) how well the present and future governments manage to keep any changes in the right direction. It’s interesting to remember that as part of his programme for smaller government Roland Regan reduced head count massively when he started his term. By the time he left he saw the final head count exceeding the original one, and d) how well the social benefits are streamlined so as to be fair. People do not mind seeing such benefits reduced or redistributed as long as this is done with fairness. This is bound to be a tall order considering that “*public trust in politicians*” puts Cyprus in 58th position on the GCI.

2.1. Need to Restructure

The restructuring that is required by Troika touches a wide area of activity but is fundamentally concentrated on privatizing organisations that are owned by the government (3 in particular) and shutting down those that have no function to perform. These organisations come in two forms: a) semi-government entities that are owned fully by government and b) public organisations with majority holding by the government. The way things had been handled in the period leading up to the economic recession and the way things are being dealt with since the coming of the Troika have made most Cypriots very suspicious of everyone and not just politicians. On the factor of “*efficacy of corporate boards*” Cyprus earns a troubling 90th place on the GCI. Nor is the situation any better on the factor of “*ethical behaviour of firms*” where Cyprus earns 51st position on the GCI. People in Cyprus do not trust foreign ownership either and this may partly explain why Cyprus earns 84th position on “*prevalence of foreign ownership*” on the GCI. This high level of suspicion and mistrust (which in many ways can be explained) does not auger well for the privatization process. On the one hand people mistrust government and on the other hand they are uncomfortable with private enterprise and its management approaches. So, back to the problem of trust once more!

Privatisation may at the end mean some of Cyprus’ “*iconic!*” semi-government

organisations ending up in non-Cypriot hands; which is unlikely to go down well with many voters (and politicians are aware of this). Equally, these target organisations are now employing nearly 8 thousand staff (many of whom are party stalwarts) that have made it known that they will resist changes to the status quo and their high salaries and benefits. They are afraid that their current cozy working conditions will be eroded and the work-ethic that is modeled on the civil service changed. Admittedly some of these organisations are in many ways doing a reasonably good job even if bureaucratically; but they are over-manned with over-paid staff and politically party-dependent. Undoubtedly many that are now employed with these organisations stand to lose their jobs as more competent boards and professional executive teams take over and start streamlining and down sizing to enhance productivity and competitiveness.

As owner the government has been making a hefty “profit” from at least 2 of these monopolistic organisations that are supposed not to make a profit from their monopolistic practices but which operate on a cost-plus basis. “Profit” for these organisation comes from the pockets of the taxpayer-consumer who is also the guarantor of their loans via the government. Some of these organisations have open corruption cases against some of their former officials. Selling off some of the other smaller (and defunct) organisations will not be easy as many of these have no net worth to talk about; others are in a state of hibernation whilst their staff continue to draw high salaries. Still, others are kept from bankruptcy by all sorts of funding vehicles that has earned the ire of Brussels. Maybe only 2 or 3 of the larger organisations will turn out to be attractive to local or foreign investors. Namely: the public telecoms company, the ports and maybe (big maybe) the public electricity company. The government stands to improve its cash flow through the sale of the above three organisations and will save money from the closure of the rest. The Troika will press hard in the direction of privatization, staff and unions will oppose and politicians will be sitting on the fence. The government cash flow is in dire straights and its officials will be delighted to get some cash for the purser. The government is well aware of the resistance coming from those that benefit from the current system. People are scared that even if the government sells off these organisations its cash flow will not improve because it may be need to put the proceeds into the black hole of a banking system with never-ending non performing loans.

Foreign investors will be loathed to put their money in a country with a broken banking system and which scores 51st position on the GCI on the factor of “*efficacy of legal framework in settling disputes.*” Selling off a publicly-owned going concern may not prove as easy as it looks because of the decay in the softer areas of the economy and which the foreign investor is aware of. Neither the potential investors nor the Troika have much sway and influence in the intangible area of attitudes, accountability, confidence, trust in others and institutions, etc. There is little the Troika can do in these areas despite its power to wield the lenders whip. Perhaps the biggest and most important restructuring that needs to take place if the economy lies in the area of attitude and behavior change that will bring the trust level back to the economy. The Troika has no say in these areas and here lies the crux of the effort to restructure the economy.

2.2. The Banking Morass Refuses to go Away

The economy will probably continue in its current depressed path for a long time to come and as long as the banking crisis continues to have a negative impact on economic developments. The obsession with saving Cyprus’ largest bank at any cost is a major contributing factor to the economy’s inability to move ahead. For a start, the current banking affairs of the country are detrimental to the name of Cyprus and its economy. Many in the peripheral financial sector are keen to keep the bank alive so that eventually it can revert to its old “glory.” The brutal fact, of course, is that Cyprus’ banking sector of old is now history. Cyprus will have to look for a new banking paradigm that will conform to its capabilities and limitations (?deposits equal to GDP). Cyprus’ largest bank is threatening to take the economy down considering its all-but-bankrupt balance sheet. Purists content that had the market been left alone to do its work the bank would have already gone through the liquidation process in an organized manner. What is keeping the bank afloat, purists content, are not the bank’s fundamentals but its huge debt to the European Central Bank (ECB) that is guaranteed by the Cyprus government via the Central Bank of Cyprus (CBC). In the event of the bank folding up (as it should have in the opinion of the purists of the free enterprise system) the government will be held responsible for the huge outstanding emergency liquidity assistance (ELA) and other debts to the ECB. Equally, the government is the guarantor of deposits up to 100,000; and the government has no money. The major causes of Cyprus banking failure appear below:

The banking sector was dangerously over-sized and with a balance sheet 7-8 times Cyprus' GDP. Thus, Cyprus had an accident in waiting. The problems that were created as a result of the over-sized banking sector have been debated extensively by many and there is no reason to go into this debate again. The issues appearing below (and some others) have not been debated adequately: 1) the incompetence of the CBC has been monumental largely because it allowed the building up of a massive banking sector and as such created some of the preconditions for the catastrophe that ensued. It's as if the CBC planted an incendiary device in the foundations of the Cyprus economy, 2) successive governments knew that the cumulative sum of the secured bank deposits (up to 100,000 per depositor per bank) was beyond the ability of Cyprus to handle in the event of a major bank collapse or bank run. Yet no steps were taken to reduce the banking sector and 3) the incompetence of some at bank board and top management level is humongous. Board members exercised little control on management and allowed management with a parochial background and with little understanding of the big picture to deal with complex matters. Boards allowed management cadre with illusions of grandeur to take decisions far beyond their limited competencies. This illusion of grandeur let them to trade in high-risk foreign government bonds the moment the more prudent and knowledgeable international bankers were rushing to offload such toxic instruments.

Bank managers imprudently (if not foolishly) extend risky loans to off load the massive high-interest-bearing deposits that needed to be loaned out to generate income and profits. This practice let to a calamitous level of non-performing loans (NPL). At the time of this writing the non-performing loans of *commercial banks* stood at nearly 42% of bank loans (or 20bil which account for roughly 135% of Cyprus' current GDP.¹³ If 50% of this amount is finally lost the banks will be in dire trouble yet again. Add to the above amounts another 6bil which are the NPLs of the *coop bank* (50% NPLS) and the total NPLs for Cyprus rise to 26bil or some 160% of Cyprus' current GDP. Indicatively and at the time of this writing the *commercial banks'* NPLs stood at the levels appearing in Table 4.¹⁴

Table 4

Loans by <i>commercial banks</i>:	% of loans that were non performing as @ June, 2014
Business loans	46
Construction and real estate	68
Individuals	44
Housing loans	40
Consumer loans	62

The cost of money remains sky-high as the discredited banking sector tries to squeeze as much as possible out of every transaction by charging unsuspecting customers ludicrous interest rates and a host of charges totalling to a crippling 8-10%. The discredited banking system is not working as intended and in the process has hit the recovery process hard. As Timothy Geithner notes, “*When the financial system stops working, credit freezes, savings evaporate and demand for goods and services disappears, which leads to lay-offs and poverty and pain*”.¹⁵ Whilst the Cyprus economy is beset by crippling interest rates and banking fees the EU is moving in the opposite direction to help revitalize the economy. Indicatively the deputy governor of the Bank of England was predicting that the official UK interest rate could reach an average of 3% in 2017-19. The reader is reminded that the UK rates were at a historic low of 0.5% starting 2009 and as recession began to bite.¹⁶

The impending foreclosures (covering private and commercial borrowers) that the banks are pressing for are bound to create an overall feeling of panic and great despondency which in the short-term is likely to hurt the economy. As loan security was pecked to inflated prices (bubble prices) in many/most cases the liquidation of the asset will only cover a portion of the loan; thus opening up the possibility for borrower (and guarantor) bankruptcies. This new reality plus the newly imposed property taxes has thrown into disarray home and property ownership. The introduction of property taxes (at inflated, bubble-level values) has added to the feeling of state arbitrariness which has further depressed the market and further reduced trust in government. Bankruptcies are not exactly the best short-term strategy to bringing an economy back to health. Nor does the fact that Cyprus holds these positions on the GCI help

recovery: a) 143rd position on the factor of “*soundness of banks,*” b) 109th on “*ease of access to loans*” and c) 113th on “*financing through equity market.*”

The Cyprus banking crisis continues unabated and there is no respite in sight. This is touching people’s lives. Thousands of people and businesses are worried that they will lose their homes and businesses and in the end continue to owe to the banks. They are worried that any residual debt after the forced sale of their properties will soon grow to the original debt levels considering the 17% bank charge on delayed loan payments. They are concerned that a few years after they lose their properties they will still be in debt for the same amount as before foreclosure. The banking crisis has been the major culprit of the recession and continues to keep the Cyprus economy critically ill and with huge public debt. This is putting a dampening effect on prospects and is causing much pessimism. Repeated declarations to the effect that the banking system is heading for recovery have, as expected, been empty words if not shameless public relations exercises with a view to creating a feeling of unjustified euphoria.

People and businesses are racing to deleverage so as to be spared themselves from the effects of the debilitating interest rates and fees banks charge without mercy. As people and businesses rush to pay their debts and as banks sell debtor assets at depressed values in an effort to collect portions of the NPLs, consumption unavoidably reduces and in turn diminishes the prospect for recovery. Cyprus is now experiencing what is known as the Minsky effect as insolvent debt pushes the economy to recession.¹⁷

The unchecked land/property values of the past have caused, and continue to cause, great harm to the economy of Cyprus. Speculation in land created what are commonly known as Ponzi schemes. Basically people borrowed on over-priced land but were unable to service such debts (not even interest payments.) They survived by refinancing these loans on the strength of ever-rising land values. This is how many of Cyprus real estate developers and property dealers stayed afloat for a long time. The banks were ever ready to advance loans so as to reduce their ever-growing deposits. Speculative borrowing was on the rise as people borrowed now to pay later. Banks even promoted schemes that required the borrower to cover interest payments only for a period of say 3-5 years, thus trapping him in an illusionary process. These schemes let many borrowers to see the repayment of principal as a far-distant event. Other borrowers were under the illusion that if the banks pressed for

repayment of the loan all they had to do is sell their asset at an appreciated value and in the process even make a profit.¹⁸

In the author's view probably the single most important cause of Cyprus' economic calamity was the eagerness of successive Cyprus governments to profit from land through the collection of soaring capital gain taxes and exploitative transfer fees. Governments, under voter pressure, granted building coefficients to practically every piece of land on the Island thus turning the whole country into a large building plot of varying building coefficients. This fiasco gave land owners the illusion of being wealthy. In the vast majority of cases these bloated values meant nothing in reality. Under the illusion of being wealthy land-owners began to borrow and spend. A piece of agricultural land with an intrinsic value of 50,000 overnight was worth 20 times that value on account of improved building coefficients; but, just on paper. Under the illusion of being a millionaire the owner hurried to the bank to get a loan beyond his cash flow capabilities and ability to repay. The banks obliged (after all banks needed to advance loans to deal their huge deposits) and accepted the price-inflated land as collateral. Once the crisis hit, the bubble burst leaving both sides exposed. Irresponsibility finally took its toll.

3. Corruption

Corruption of all sorts, major and minor, also took its toll. Here is what Paul Krugman had to say about corruption and its workings.¹⁹ *“There’s plenty of raw corruption....But in many, perhaps most cases, the corruption is softer and less identifiable....At a still more amorphous level, wealth brings access, and access brings personal influence. And, “If you leave office held in high esteem by the Davos set, there are any number of European Commissions or IMF or whatnot gigs that you might be eligible for even if you’re absolutely despised by your fellow countrymen”.* Cyprus is in a good position to appreciate what Paul Krugman is talking about considering that hundreds of corruption cases have been reported many which are now sitting on the Attorney General's desk pending investigation. At the time of writing, Cyprus received with mirth, and anger, the appointment to high office of unemployed (unemployable!) politicians whose only qualification was the fact that they crossed the floor to support the government. Self interest, corruption and petty politics helped sink Cyprus to the position it finds itself in today on the Global Corruption Barometer (2013 report) that reports that,

53% of respondents felt that ‘corruption in Cyprus increased a lot in the past 2 years’ vs only 1% that felt that it decreased a lot. Table 5.²⁰

Table 5: Cyprus on the Global Corruption Barometer (2013)

Institution in Cyprus	% of respondents from Cyprus who felt that the institution was amongst the most corrupt/extremely corrupt
Political parties	91%*
Parliament /legislative	76%
Business	37%
Education systems	27%
Judiciary	38%
Medical /health services	54%**
Police	76%
Public officials and civil servants	59%*

* note: 51 of 107 countries felt that political parties were amongst the institutions most affected by corruption.

** note: 14% of respondents reported paying a bribe to the medical services in the past 12 months.

***note: only 7 countries out of 107 felt that public service and civil service were amongst the most corrupt.

4. Reducing Investment

Due primarily to low confidence in the economy gross fixed capital formation (GFCF) has been hit hard. GFCF in Cyprus fell by 4.9% in 2010 in relation to 2009 and continued to drop ever since by these percentages: 8.7% (2011), 19.6% (2012), 24.0% (2013) and 18.1% (projected for 2014).²¹ GFCF measures the net increase in fixed capital (minus disposals) that could include: a) improvements in land (e.g. farmers improving their irrigation systems and fencing), b) improvements in machinery and plant, c) purchases of new equipment and d) construction of roads and buildings such as schools, offices, commercial and industrial buildings and private homes all of which increase the value of physical assets.

The economic crisis reduced investment for upkeep and construction of new public roads and other infrastructure works that are so necessary for the advancement of the economy that is now in recession. Reversing this trend will not be easy because it requires money which the Cyprus government does not have and is unlikely to have in the short term, at least. The depressed mood of a recession sometimes even affects sectors that appear to be healthy, such as the hotel industry in the case of Cyprus. A depressing environment is often contagious. Management is tempted to put off to a later date refurbishment work and other investments for fear of what the future might bring. Even if the economy starts to show signs of recovery the business community will be loathed to believe that the signs are real and will probably hold back on investment.

5. Effects of a Depressing Environment

In the case of Cyprus the recovery process has been held back partly on account of the surrounding depressing economic environment in other euro zone countries as well. The most recent figures coming out of the euro zone disappointed all those that viewed with optimism its immediate economic future. Just as economists (economists are part of the problem says Paul Grugman) in the euro zone were expecting recovery, its industrial production fell unexpectedly, proving the fickle nature of economic recovery and economic predictions. In June, 2014 factory output in the euro zone fell by 0.3%, contrary to predictions of growth in factory output of 0.3% (thus a shortfall of 0.6% from target). This piece of negative news resulted in the fall in value of the Euro against the US dollar.²² Whilst the fall of the Euro was good news for exporters the reasons as to why it fell make depressing reading.

6. Public Relations and False Positive Messages

Most politicians and policy makers around the world like to give positive messages even when surrounded by negative facts. They tend to put a gloss on bad news with the hope that this will create optimism, show them in good light and win votes for them. This explains the barrage of news announcing massive impending investments from abroad (that at the end never materialized!) and half-truths and vague messages from politicians and officials of the discredited

banking system; even some academics fell in the trap of exuberance. Any seasoned PR professional will tell us that false notes of optimism are typically followed by a drop in trust once reality is known which in turn hurts the recovery process even more than before the falsehoods. This partly explains why repeated opinion polls tend to show that the trust level of the people of Cyprus in institutions, elected representatives and those holding positions of authority is all but lost. In years past, Cyprus was characterized by: a) high electoral turnout and b) high politicization of the citizenry. Yet in the last euro parliament elections abstention from voting reached a high of 56% with a much higher abstention rate amongst the youth. Admittedly other European countries did not fare any better but this is no consolation to Cyprus' political system that has known halcyon days in times past. The first party in the last Cyprus elections managed to secure a meager 16.1% (formerly 35%) of eligible votes and the second secured a paltry 11.5% (formerly 32%).

7. Employment

Recession hit employees hard. Cyprus unemployment rate now stands at about 16.9% of the active population (or roughly 78,000 unemployed). The official figure of *registered unemployed* is now 73,000.²³ The young have been worse hit considering that roughly one in four in this age group is now out of a job. Officially 39.4% of Cyprus employable youth (15-24 years old) were unemployed in Q1 of 2014. The growth of unemployment in Cyprus followed this path: unemployment rate of 6.3% (2010), 7.9% (2011), 11.9% (2012) 16.0% (2013), and 19.2% (projected for 2014).²⁴ In Q1 of 2014, 48,000 were unemployed for more than 6 months and are thus now not earning unemployment benefits.²⁵ This relatively high unemployment figure caused the government to go back to an old bad habit; that of borrowing from the Social Insurance Pension Fund to cover needs not related to pensions. The government already borrowed 170 million from the pension fund to pay the unemployed. If past practice is any guide these moneys will probably not be repaid by the government.

In the past, successive Cypriot governments borrowed heavily from Social Insurance over 7bil which they never returned. Incidentally, the Troika encouraged government to default on its loan obligation as this particular loan was considered domestic as it was owed to locals (... owed to natives of colonial

times!) This added to the dent in confidence as the government was seen to order by edict the slashing of bank deposits and reneging on loan obligations to the common man. This led to a short-fall in the social insurance fund that necessitated an increase in social insurance premiums /contributions which brought the rates to a neck-breaking 19.3%. It is unlikely that the economy will be able to shoulder such a vast burden that is the result of an ill-thought-out decision. Employers will probably look for ways to reduce and even avoid this crashing weight. If we now add to the above burden (19.3% of payroll) another 4.7% to cover the proposed universal medical plan of the government, the total jumps to roughly 24%.

The economic crisis has also created a major labour utilisation problem. Many of the unemployed fail to register after receiving unemployment for the maximum allowed 6 months. An unspecified number, in the thousands, of young men and women with potential and with a high competitiveness index have already left the Island and are now working in Europe, the Gulf and other countries. Most of these young men and women are gifted and their skills levels probably fall at the top 5-10% of their international peers. Indicatively by last count some 44 Cypriot pilots (an impressive number for a small population) are now working in the Gulf region and Saudi Arabia; a number of these are now holding senior positions. All these young, competent professionals had to take competitive examinations and earn demanding certifications before being allowed to compete, let alone be selected. They also had to compete in a strong international field of other gifted candidates.

It is a fact that the first to emigrate are those that maintain an international focus, are highly numerate and/or verbal and know foreign languages. Another group of young men and women started working abroad on completion of their education without first returning to Cyprus. Others have simply given up and just stopped looking for a job and are now in a quandary. Another group of employees work in Cyprus part-time even if they wish to work full-time. Others are working on an hourly basis without any job security or career future. Many work beneath their skills level just to secure a living (no matter how low the standard). These are people penumbra. A notable drop in wages for some has reduced their living standards and the quality of their life; though they consider themselves lucky to still have a job. The median monthly salary of Cyprus dropped in Q2/14 vs Q2 2013 and now stands at 1,807.²⁶ Many young

unemployed and destitute are now staying with their parents for longer than warranted.

8. Consumption and Economic Sentiment

Unemployment and low labor utilisation takes away from consumption. Those that migrated took their purchasing power to the country they migrate to. On the positive side people that left Cyprus reduced Cyprus' labor surplus and unemployment benefits; many also make transfers from abroad to their families in Cyprus. In the final analysis the weak domestic demand is further weakened by those emigrating from Cyprus. Fiscal austerity has added to the consumption problem. Private consumption in Cyprus though up by 1.5% in 2010 and 1.3% in 2011, took a plunge in 2012 (-2.5%), 2013 (-7.5%) and 2014 (projected -6.3%).²⁷ The latest (August, 2014) economic sentiment indicators make bleak reading, particularly as regards consumption. Below is a sample of current sentiment. Table 6.²⁸

Table 6 : Economic sentiment

Sector/factor	Score August 2014*
Major purchases at present (feedback by consumers)	-48
Major purchases intentions in next 12 months (feedback by consumers)	-56
Current overall order books (feedback from Construction)	-85
Expected business activity: sales next 3 months (feedback from the retail trade)	-24

* difference between % positive responses and % negative responses

9. Current Account

The current account balance does not look well either; in fact it never did! Cyprus' current account balance (trade balance plus the net amount received from Cypriot factors of production used abroad in the period) stood at -6.8 % of

GDP (2012), -1.7% (2013) and 0.0% (2014) and -275.7 million for June/2014.²⁹ The improvement of the 2014 picture is largely on account of reduced imports rather than improved exports. Exports require competitiveness and Cyprus is weak in this area. On the GCI Cyprus holds the unenviable 58th position out of 144 countries on “*competitiveness*.” On imports as percent of GDP Cyprus ranks in 78th position and on exports as percent of GDP Cyprus holds 59th position. Suffice to say that in June, 2014 total imports into Cyprus stood at 422,1mil (315,7 mil of which from EU countries) and total exports stood at a meager 146,4mil (88,2 mil to EU countries).³⁰ The country needs desperately to export as domestic demand is low and no business will produce what it cannot sell.

10. Productivity

For many years Cyprus has been bedeviled by low productivity. There are many reasons for this including: a) “*country’s capacity to attract talent*” 66th position on the GCI, b) “*production process sophistication*” 45th position, c) “*capacity for innovation*” 63 and d) “*Flexibility of wage determination*,” 108th position. For the last 30 or so years the average annual productivity in Cyprus was roughly 2% with net average annual salary increases in this period of roughly 3.6%.³¹ These and other factors kept Cyprus uncompetitive. The current recession has worsened productivity because of reduced investment in machines and technology and poor innovation. Firms are reluctant to take borrowing risks to invest in plant, equipment and intellectual property for two major reasons: a) Cypriot banks make lending difficult and charge prohibitive interest rates and difficult-to-bear charges. Banks have been known to act arbitrarily (almost pirating) in an effort to cover their bad decisions and inefficiency that ate up their capital and discredited them internationally and, b) businesses have little confidence in the economy as things stand and are thus loathed to take medium- or long-term risks that would entail payback periods of, say, 5-12 years. Unsavory practices such as the hair-cut on deposits made businessmen adopt short-termism in their investment strategy thus avoiding payback periods of more than a few years. The investment shortfall in technology and machinery hurts the already low productivity of Cyprus. Poor investment in technology is hurting private and public enterprise. On the GCI factor of “*government procurement of advanced technology*” Cyprus holds 55th position.

11. Promising areas not Delivering

At the start of the recession tourism looked as Cyprus' great hope for recovery. In the end this did not happen and the industry failed to deliver the much vaunted results and in the process depressed the mood further. The high educated workforce of Cyprus held the other great promise but this did not delivered either. At the start it was believed that the educated unemployed would find ways to lift themselves out of unemployment (e.g. starting their own business, working remotely out of Cyprus, etc). This did not happen in any notable way. In its *“International Assessment of Adult Competitiveness”* (PIAAC) the *“OECD Skills Outlook 2013”* puts Cyprus in a bad light considering that: a) on the factor of *“numeracy”* (*“comparison of average proficiency scores 16-24 year olds”*) Cyprus scores fell into the *“significantly below average”* band (Cyprus scored 265 against 288 of leader Japan and 282 point for runner-up Finland). In *literacy* Cyprus (score 267) found itself in the same band as that of numeracy. Japan (299) and Finland (297) earned first and second place respectively on literacy. Encouragingly the GCI placed Cyprus in 10th position on the factor of *“quality of math and science education.”*

Naïve attempts to resurrect the financial services sector also failed just as attempts to bring into Cyprus new international investors failed; at least for the moment. All these disappointments point to the reality of long-drawn-out recession that will not go away. Typical of the way many governments, with little experience in handling major economic crises, deal with recession, the Cyprus government attacked the problem through “feel-good” PR exercise and promises of a bright future that apparently was just around the corner. Instead of looking at the seriousness of the problem with great care and thoughtfulness the Cyprus government started putting out outlandish pronouncements of foreign investors that were queuing to kick-start the economy, of impromptu presidential visits to the Gulf followed by pronouncements that investment agreements were just about to be signed with X or Y country from the Gulf and other places. One of the most amusing of these attempts was the first-page report in a pro-government paper with the title, *“first the airline connection and then investments will follow.”* Apparently one of the Gulf airlines decided to establish an experimental route to Cyprus which was in the airline's plan for some time. This simple business activity was “sold” as the precursor to large Gulf investments in Cyprus; as if prospective investors need a direct airline

route before investing in a country. Needless to say that at the end nothing materialized! When the government was supposed to repay an internal loan that was falling due it managed to rollover the loan through high-interest bonds. Bloomberg had this to say, *“Cyprus sold the June 2019 bonds to yield 4.85 percent, down from initial price talk at about 5 percent, according to the finance ministry. The sale exceeded expectations and the cash raised will be used to help finance internal borrowing”*.³² Instead of the government coming out with facts and reality it came out with triumphant propaganda that lasted for weeks. *“We are now back in the money markets”*, read the headings. This created false exuberance. After the bond issue Cyprus’ credit rating continued to hold 97th position on the GCI. The government of Greece employs similar practices whilst its high public debt continues to throttle the economy. Exuberance was partly created from outside the country as the European Commission predicted in November 2010 that Greece’s economy in 2012 would grow by 1.1%. The same body predicted growth for Greece in 2013 and also 2014. A former prime minister of Greece (who has much to explain as regards the mismanagement of the economy) announced triumphantly in December 2010 that Greece would be out of the woods in 2012. Greece is still in recession.

12. Quick Fixes do not Work

The Cyprus government’s first-aid packages did not work either as these were bereft of sound planning and failed to take into account that business activity requires sound infrastructure and long-term planning and above all trust. For example, the government promised to grant government land to young unemployed wishing to employ themselves in farming. The scheme failed to provide the expected results as the land holdings were too small to sustain meaningful farming, the reliability of the water supply was in doubt and the skills set of the new farmers was below par despite going through a hurriedly-prepared training program.

Through one of its departments the government announced schemes that were meant to subsidize the cost of employment in an effort to encourage employers to employ more staff. This scheme was designed to pay for ten months 50% of the cost of employment with a maximum government outlay of 5,000 per employee. The scheme naively assumed that employers would create new jobs out of nowhere simply because they would temporarily enjoy

access to cheap labor. The reality is that such schemes rarely have long-term prospects because in the long-term what determines the employment levels of a business is its ability to sell and offer real value to the customer. Businesses will not produce unless they have a customer.

The failure of such schemes discredits the overall government effort. The daily political pressures on government to do something appear to have pushed policy makers towards hurried actions that usually fail to take into account market and economic realities; worse, they fail to take account of the social system within which a particular economy operates. Cyprus now finds itself in the trap of thinking that major structural problems can be addressed through quick-fixes. Of the many Cypriot quick-fixes the one that offers visas and passports to foreign third country investors stands out (even if this practice is not unique to Cyprus). Under pressure from land developers, realtors and politicians Cyprus initiated a scheme to grant third-country citizens migration permits, permits of long-term stay or even passports; ostensibly to entice them to “invest” in Cyprus. To many in Cyprus this scheme looks like an effort designed to hurriedly bring the land development industry back from the dead. Even the uninitiated know that serious investors are welcome everywhere in the world and do not need preferential visa arrangements to entice them to invest. Those with sustainable projects chose to set up business in places that they believe will provide them with value and not in places that will trade a visa for an investment project. All countries welcome good investors and in fact bend over backwards to accommodate them. Rarely do people choose a country to invest in based on visa facilitation.

Current efforts to revitalize the real estate market, that to a large extent has been one of the major culprits of the current calamity, is not the answer. One piece of evidence to this effect are the attempts of the Cyprus Investment Promotion Agency-CIPA.³³ The CIPA was set up by law in 2007 for the purpose of promoting outside investments. A cursory look into the internet site of this body gives the impression that its main focus is the real estate market and not much else. Rather than generating new ideas the CIPA seems to have reverted to the beaten track of the past.

The visa offer/attraction gave real estate salesmen the platform on which to plough their wares to third-countries (targeting primarily countries with political instability and people wishing to secure residence and ultimately citizenship of

an EU country). The author witnessed in person the efforts of real estate salesmen in his travels to Cairo. He had occasion to talk to salespeople and also read their brochures many of which carried titles to this effect, *“If you wish to obtain a Cyprus visa then start thinking about buying property in Cyprus.”* The brochures outlined in detail how to go about securing a visa in an EU member state. In June 2014 a senior migration officer of Cyprus addressed the Cyprus International Business Association (CIBA) saying that starting 2012 Cyprus granted a total of 1,124 migration permits to third country citizens which required the holders to buy a house in Cyprus for at least 300,000. In the same period another 813 regular migration permits (not related to the above scheme) and 257 long-term stay permits were granted to third country residents. Recently the Ministerial Council of Cyprus approved the scheme for naturalising by exception non-Cypriot investors. The scheme set out the criteria under which non-Cypriots businessmen /investors may secure Cyprus citizenship. Specifically, citizenship will be granted to foreigner business people with 5 million investment in: real estate, government or private assets, Cypriot companies or Cypriot banks (deposits count as investment!) Additionally, citizenship will be granted to depositors that suffered at least 3mil haircut during the depositor bail-in of 2013. In every case the investor is required to buy a house of at least 500,000. Long-term stay requires a minimum of 5 years residence before applying. Many economic purists look askance at such practices and consider these suspect as governments use their right to issue visas and to grant citizenships to aid business. In some ways such practices remind one of agricultural (or other) subsidies. The EU is not happy with visa/citizenship practices as these impact on other countries as well. Some other EU countries are employing similar practices and only recently Malta came under fire from the EU for doing exactly this. *BBC* lately reported that, *“The tiny nation of Malta recently came under fire when it announced plans to allow wealthy foreigners to obtain a passport for a 650,000 euro investment with no residency requirement, which would have made it the cheapest European Union (EU) nation in which to purchase citizenship. Prime Minister Joseph Muscat estimated about 45 people would apply in the first year, resulting in 30m euros (£24m; \$41m) in revenues.”* Interestingly Malta expects a mere 45 people to apply whilst Cyprus expects thousands!. After pressure from EU officials, Malta changed the rule and now requires potential passport holders to reside in Malta for a year and raised the investment to 1.15m.

Instead of Cyprus relying on its own potentialities and good planning to reinvent itself, it started looking for easy solutions through “giveaways” that are reminiscent of the failed practices of the past (e.g. attracting huge bank deposits by offering interest rates of 4-5% and then placing these funds in high risk ventures). Cyprus is failing to take an honest look into the real reasons that put her in 58th place on the GCI. Equally Cyprus does not inquire seriously why it gets bad ratings on other investment-related parameters such as: a) “*business impact of rules on FDI*” (foreign direct investment): 51st position, b) “*FDI and technology transfer*”: 78th position and c) “*number of procedures to start a business*”: 57th position. Sound investors first look for promising business opportunities, transparency, well-functioning civil service bureaucracy, property rights (54th position on the GCI index for Cyprus) and a sound and incorruptible banking system. At the time of this writing the *Time magazine* reported that only 11% of respondents trust the banking system of Cyprus. This flies into the face of declarations by the Association of Cyprus Banks (June, 2014) that, “*trust in Cyprus banks is gradually being restored.*”

13. Innovation

People that believed in innovation as a tool for economic recovery were disappointed from the Cyprus paradigm. Cyprus now lies in 63rd position on the GCI’s “*capacity for innovation.*” Cyprus’ low ratings on innovation defy logic because Cyprus is rich in talent and claims a large pool of academically qualified people. One would have expected that this calibre of people would have easily promoted innovation. Cyprus’ notorious bureaucracy is of course a barrier to innovation. So, is the low connectivity between Cyprus’ many universities and institutes with industry and the market place in general. The need of some academics to study and research issues of an international, rather than of local, nature helps them further their research potentialities abroad but does not necessarily help Cyprus; this may partly explain why not much innovation is taking place in Cyprus. Furthermore, Cyprus may also have a problem with accepting and disseminating innovation fast enough. Rogers³⁴ supports that ideas spread assuming an innovation exists in the first place. Many other issues need to be dealt with after the innovation is announced. Many of these issues are not in the control of the innovator. These issues include communication channels to get the innovation known and accepted, time to allow the innovation

to be adopted by people speedily and a social system that is willing to work towards the common objective of accepting, adopting and applying the innovation. Cyprus seems to have failed to produce innovative products, processes and ideas in the first place. Low rate of innovation coupled with a low adoption and implementation rate by society of the few innovative practices and products that Cyprus may have created, puts Cyprus in 63rd position on the GCI.

Despite the creation of several research institutes and the work of many well-qualified individuals Cyprus still remains dishearteningly low on innovation. The rate of adoption of innovative practices in the civil service of Cyprus is not something to be proud of. Departments and ministries tend to create fiefdoms that isolate staff and thus harming cooperation, communication and joint effort. The obvious need in the civil service to transfer staff from one department to another (hardly an innovation!) has not yet been adopted despite two decades of discussion. For reasons of self-interest unions, department officials and employees refuse to accept this most obvious practice that one finds even in the most primitive organisational systems. In June, 2014 a Cyprus cabinet member said (in translation), “recovery of the Cypriot economy undoubtedly will come through the entrepreneurship, innovation of the productive sector.... The role of the public sector...is to work supportively in this direction.” Interestingly, this particular message does not recognise the need for the public sector innovativeness.

14. Unemployment: the Problem that will not go Away Easily

To be considered unemployed a person must: a) declare that he/she is not working, b) wish to work, c) have actively sought employment in the last 4 weeks and d) be willing to work or is waiting to start work in the next 4 weeks. Anyone out of work who fails to meet the above criteria is “economically inactive” rather than unemployed. The International Labour Organisation (ILO) defines unemployment more or less as above and covers those 16 years or older. The rate of unemployment is defined by the ILO as the ratio of economically active people who are unemployed (as per above definition of the term “unemployment.”) People that are retired or are pursuing education or that have stopped looking for a job because they have come to the conclusion that there are no job prospects, and therefore are discouraged from pursuing the task of finding a job, are excluded from the labor force.

15. The Causes of Unemployment are Varied and Include amongst Others:

Employers often refuse to hire new staff because they consider that the going wages are too high (*known as “classical or “real wage” unemployment*). At one point unions in Cyprus pushed wages to prohibitive levels in certain sectors and in the process drove some companies to the ground; particularly in the agricultural sector. Here is an example from the author’s work experience: whilst the free market was paying 850 per month for the services of an unskilled potatoes packing worker the unions forced some companies (through threat of strike which when it materializes can ruin perishable products in a matter of days) to pay employees two or three times the going wage; ostensibly to compensate for the fact that the employees were long-serving. In other words an employee with 10 years of service had to be paid twice as much as one with two years of service even if the latter performed twice as well as the former. This happened with the tacit support of the ministry of labor’s mediation service; they obstinately failed to see any link between performance and reward.³⁵

Even in the most vibrant economies some people are unemployed because it takes time for those that lose their job before they can locate a promising vacancy, applying and ultimately starting to work (*known as “frictional” or “search” unemployment*). With the recession in full swing not many vacancies exist in Cyprus today, leading some job seekers to even stop searching. In a small place like Cyprus vacancies become known rather speedily either through word of mouth or through the unions; this helps cut down the in-between-jobs time.

In times of great change in the economy (including recessions) employees that lose their jobs need to adapt to the new realities quickly. This often entails upgrading, or even acquiring, new skills that can help their employment prospects. A prolonged skills’ mismatch unavoidably increases one’s period of unemployment (*known as “structural” unemployment*). In the case of Cyprus many of those that lost their jobs are in industries such as construction where the immediate outlook looks grim. Many are trained artisans and will thus find it difficult to look for alternative employment in the tourist sector for example. Worse still, they run the risk of losing their skills-set through prolonged unemployment. Many of the unemployed from the banking sector may find it difficult to locate a job at their old salary. Coming from highly unionised and

protected environment former bank employees may even have to face adjustment problems in transiting to a more competitive environment.

Those that are now unemployed, but before held unionised jobs, may need to change their attitude to work. The problem transcends skills and goes into behaviour. The banking work environment of the last 30 years was closed and had created a comfortable symbiosis between management and unions that was disastrous for the customer. Indicatively, members of the employers negotiating team were often union members as well and thus benefited equally with other employees from the outcome of the negotiations. During the negotiating process they had no reason to go against their own interests by standing up to the unions. With this and other astonishing practices the banking sector became the coveted place of work for those that wished to have absolute security coupled with a high salary. Unemployed staff that come from such “happy family” environments certainly need to have a change of perceptions as what work ethic entails.

Globalisation that is often blamed for developing structural unemployment is not very prevalent in Cyprus; except maybe in the low-skills food and catering sector now that international food chains started operating in Cyprus. Seasonal unemployment on the other hand has always been a major problem for Cyprus considering the seasonality of the tourist industry and the fact that many coastal hotels and restaurants remain closed throughout winter.

Cyprus has been hit badly by recessionary unemployment (*known as “cyclical” unemployment*) as a result of: a) the shrinking economy that forced many employers to shut their operations or retrench and b) falling aggregate demand (*demand deficient Keynesian unemployment*). Putting the unemployed back will require more than “normal” growth rates in the economy (*see Okun’s law below for the empirical relationship between GDP growth and unemployment levels*).

There is little data on Cyprus’ “voluntary” unemployment but one would suspect that there is no major problem to deal with. The right to unemployment pay is limited to 6 months only and this discourages people from willingly staying out of a job for long. The proposed guaranteed benefit for the needy is unlikely to encourage voluntary unemployment as the proposed guidelines are quite strict. Also, income tax kicks in on incomes of more than 19,500; this removes taxation as an incentive not to work. A potential problem could be the equilibrium wage rate that is now falling and in all likelihood will continue to

fall. If this happens some may be discouraged from working on account of low salaries. The after-tax salary of all employees has already fallen due to the special levy on salaries.³⁶

Unemployment is a major and intractable problem because: a) under recessionary conditions the unemployed will not produce even if they wish to; thus restraining economic growth, b) the government is forced to provide relief funding. As we have already seen the government has already transferred nearly 200mil from the pension reserves to cover shortfalls in the hard-pressed unemployment fund. Additionally, the government is forced to reduce spending in health, education, etc., as the need to provide relief to the unemployed and the destitute increases c) the high unemployment of the young and the educated means that the costs parents and society incurred to educate the youth is not providing the needed return to justify the expenditure; aside of course of the psychological trauma the unemployed experience, d) the inflow of direct and indirect taxes to the government purser reduces because the unemployed pay minimum indirect tax as they spend so little; not to mention the fact that the unemployed typically burden society with many physical and mental health problems, e) Cyprus is already experiencing the surreptitious negatives of a potential diminished skills pool despite the feeble attempts at retraining the unemployed. A young graduate that stays unemployed for, say, two years can hardly stay competitive in the job market.

The unemployment problem is likely to stay with Cyprus for a long time considering the current and expected progress of the economy and the debilitating effects of a broken banking system. If *Okun's* theory of a direct relationship between output and unemployment is to be trusted then it will take a miracle to put the unemployed back to work. To make a dent on unemployment the economy needs to grow by more than the "natural" rate because the labour force has a natural rate of increase which holds the unemployment rate in a steady position. Equally, unemployment in the short-term could grow because of increased productivity on account of the use of more technology (i.e. robotics reduce the need for manpower). Therefore, to reduce unemployment the economy has to grow above its potential (say 2% in the case of Cyprus and between 2.3% and 2.6% in the case of the USA). On the basis of *Okun's* useful predicting technique (and assuming no imponderables in the Cyprus economy) to achieve a drop of 1% in unemployment the

economy must grow by 2% above its potential/natural growth rate. This means that it would take a 4% growth in GDP to reduce Cyprus' unemployment by 1%. Not an easy task considering the unstable and discredited banking system and the absence of a real economy besides tourism and shipping.³⁷ In discussing the future unemployment rate for Cyprus one must be wary of the direction inflation might take and how this may impact on the economy. Friedman differentiates between rising and high rates of inflation and warns, "*A rising rate of inflation may reduce unemployment, a high rate will not*".³⁸

Some may feel optimistic about the future of unemployment considering that salaries and benefits in Cyprus are likely to drop and will thus make employers more likely to hire new employees. But, will employers hire more staff if they know that there is little demand for their products due to falling consumption? The labour market in Cyprus could easily fall victim to "*hysteresis*" as the unemployed lose their skills and also their will to work. Under conditions of "*hysteresis*" unemployment remains higher than expected as a result of the damage caused by prolonged economic recession and the shocks that this creates. Those that stay in employment during the recession do not take kindly to having their wages drop; this explains why wages in Cyprus have not reduced as much as one would have reasonably expected. If those that remain unemployed succeed to keep salaries at a relatively high level during the crisis then this will not allow the labour market forces to take effect and create a new equilibrium (i.e. though the market will experience high supply of labour wages it will not fall to make employment more attractive for businesses).³⁹

In summary: the recession and the accompanying unemployment have brought with them, amongst others, reduced revenues for the tax man, lower-self respect for the semi-employed and the unemployed, employment in menial low-paying jobs, loss of skills and reduced competitiveness in the labor market, physical and mental problems and higher expenses on social benefits from a cash-strapped government.

15.1. Reducing GDP and Increasing Public Debt

Cyprus' GDP growth versus that of the other EU countries in the last 7 years appears below. Table 6.⁴⁰

Table 6: GDP growth: 2008–2013

GDP growth for 27 EU countries						
2008	2009	2010	2011	2012	2013	2014
+0.4%	-4.5%	+2.0%	+1.7%	-0.4%	-0.1%	
GDP growth for Cyprus						
3.6%	-1.9%	1.3%	0.4%	-2.4%	-5.4%	-4.1 (Q12014– (Cyprus Ministry of Finance)

Cyprus is now beset by a falling GDP and a rising debt (on the factor of “general government debt” Cyprus ranks 136th on the GCI) that makes the economic situation look very bad. All the markers show that not all is well with the Cyprus economy. In the last 2 years Cyprus produced relatively less goods and services (adjusted for inflation) than the average of the EU; which also includes countries in crisis such as Greece, Spain, Portugal and Ireland. When GDP drops everyone in the country suffers, “since income comes from selling stuff, it’s also the total amount of income earned, determining the size of the pie that gets sliced between wages, profits and taxes” to use Paul Krugman’s language.⁴¹

So, is Cyprus in recession or depression? In the early 70s, and in response to a question, President Nixon jokingly described economic recession as, “... when your neighbor loses his job” and depression as, “...when you lose your job.” Much earlier, in the 30s, Keynes⁴² took a more comprehensive (and comprehensive) view of depression by defining it as “a chronic condition of subnormal activity for a considerable period without any marked tendency either towards recovery or towards complete collapse.” In summary, Keynes viewed economic depression as: a) a below normal activity that, b) tends to last and which c) suffers relapses and vacillations (a little bit up and a little bit down but without meaningful progress towards health or regression towards collapse). For Cyprus semantics do not matter. The fact is that Cyprus (the only country in the EU to experience depositor bail-in) has a broken banking system, its GDP is reducing, its unemployment and government debt are rising. None of the above are likely to go away soon. Cyprus’ national debt in relation to some of its neighbors does

not look good either when one compares what the relative situation was 10 years ago and what it is now (2003-2014.) Cyprus debt as % of GDP took a swing for the worse (42.6%) over this 10-year period whilst that of Malta, a fellow EU member, registered a minor swing for the worse of only 10.3%. All three of Cyprus geographically close countries had a positive swing in that the ratio of debt to GDP dropped significantly over these 10 years. Table 3.⁴³

Table 3: Public Debt in 2003 vs 2014 of Cyprus and its Neighbours

Country	Public debt per person 2003 \$	Public debt per person 2014 \$	2014/2003	Debt as % of GDP 2003	Debt as % of GDP 2014	2014 -2003
Cyprus	12,716	22,105	1.73836112	68.40%	111%	42.6%
Malta	8,562	14,666	1.712917543	64.80%	75%	10.3
Egypt	1,307	2,839	2.172149962	132.60%	78%	-54.4
Israel	18,033	23,533	1.304996395	100.20%	77%	-23.4%
Lebanon	8,268	14,291	1.728471214	166.70%	115%	-52.1%

Of the 4 comparator countries Cyprus comes out worse on national debt as percent of GDP. Cyprus' national debt grew from a manageable 68.4% of GDP in 2013 to a difficult-to-manage 111% in 2014.

16. Where Does one go from Here?

In all probability the Cyprus economy will remain in a muddle for a long time to come as there is no integrated plan to help the economy come out of the morass and the problems are far too many and serious; particularly those of the banking sector and its lack of credibility which in turn affect and pull down the economy. For a start the economy will first have to overcome nepotism, sleaze, dishonesty, corruption, half-truths, propoganda, cunningness, intrigue, short-termism, self-interest and all those behaviours that helped bring Cyprus down to its present dismal condition. The population is leery of anything said and of anyone in public or private domain. Trust levels are at an all time low and this

must be redressed as soon as possible. It will not be easy, however, considering that mistrust goes very deep. It took decades of bad practices, bad ideas and bad behaviours to ruin the Cyprus economy. Recovery will need time. In the author's view the single most serious issue that the economy suffers from is that of low trust: trust in banks, in government, in institutions, in mass media, in the school system, in the legal and accounting sectors, in consultants, in academics, in economists, in hoteliers and the list is endless.

On the plus side the Troika is now helping bring about some long over-due structural changes though its role is beginning to erode as people are beginning to mistrust the Troika and its motives. Troika's high handedness and its role in degrading the democratic processes of Cyprus have been instrumental in creating a negative and sometimes hostile environment. The Troika has forced the passage of laws through parliament without the required democratic due process of extensive debate, it made agreements with government for fundamental changes in the law on the premise that parliament will endorse these willy-nilly because it would be given no choice. Troika uses threats (withholding tranches of money) to force through often unpalatable changes, etc. By side stepping parliament the Troika in its own way is eating away at the fundamental pillar of democracy: that of checks and balances. Worse still, the Troika is sometimes exhibiting a blatant disregard for the common man's feelings. The author is one of the original supporters of the Troika but above all is a committed devotee of democracy.

Even if restructuring takes place with the help/pressure of Troika concern will linger on as to what happens after the Troika leaves Cyprus. Will the changes to be brought in be sustainable or will Cyprus revert back to its old habits. It is uncertain how committed the political establishment, the unions and the many vested interests are to real and lasting change when this goes against their narrow self-interests. As these lines are being written the government back-tracked hurriedly from imposing a long-overdue and absolutely reasonable tax on the government-funded (at 100%) lump-sum payable to retiring public sector employees because of the threat of strikes. Many worry that the same actors that created the economic morass will soon regroup and revert to their old bad habits of promoting self-interest.

On the minus side the Troika seems to have a fixation with austerity and austerity alone which in the short-term diminishes any meagre chance of economic

recovery. In fact every feeble attempt to re-start the economy in the last 2 years or so has failed; public declarations of impending investments now draw laughter. One gets the impression that the Troika is in tunnel vision mode and only looks at a balanced budget (and repayment of money owed to it by Cyprus) rather than growth and reduction of unemployment. No wonder many in Cyprus and Greece see the Troika as an agent of austerity and harbinger of ills to come. It is now common belief in both countries that the Troika failed miserably to take short-term growth into account. This unavoidably creates a negative environment towards Troika which ultimately hurts the recovery process.

Growth needs a plan and to date no such plan is in place. The random and isolated voices that express impromptu views on what needs to happen do not constitute a plan. None of the following bodies have come up with a coherent and integrated plan on how to bring about economic growth: Cyprus Government, Chamber of Commerce, Employers Association, Bankers Association, universities, unions and the Cyprus Investments Promotion Board (that looks increasingly more like a land development agency than an investments board!). Cyprus now needs urgently a short-term integrated growth plan. The long-term can wait for a while, though not for long, because as Keynes reminds us, *“This long-run is a misleading guide to current affairs. In the long run we are all dead.”*!

Cyprus now *lacks a sound economic plan* that can propel the economy to growth and in turn create the conditions for improved standards of living for its people. Lee Kuan Yew, the “father” of new Singapore, sets the following preconditions for an improved economy and consequently improved standards of living, *“A people’s standard of living depends on a number of basic factors: first, the resources it has in relation to its population.....; second its level of technological competence and standards of industrial development; third, its educational and training standards; and fourth, the culture, the discipline, and drive in the workforce”*.⁴⁴ Cyprus appears to fall short on at least some of the above requirements: a) limited natural resources; except for plenty of sunshine (the issue of potential energy finds is not covered in this paper), b) low technological absorption (see GCI), c) low industrial development and production process sophistication (see GCI), d) an educated cadre (strong but not necessarily well trained (43rd position on the GCI’s “extent of staff training”) and e) low discipline and poor organisational culture (see GCI on productivity and competitiveness). The author singles out work culture in the public sector and the political establishment as being probably the most

worrisome factors both for Cyprus and Greece: poor and shoddy customer service, low productivity and slow speed of doing things. It took decades of public debate about transiting to the cheaper option of gas for the generation of electricity; yet nothing has happened and Cyprus's economy is now languishing under the weight of the most expensive electricity supply in the EU. In the meantime the cost of electricity is literally ruining some sectors of the economy.

And now back to trust once again. In the author's view *loss of trust* is probably the biggest impediment to growth. As mentioned earlier Peter Drucker says that it takes 21 years before a cheated bank customer can forget and forgive. Trust in banks, in the political system, in institutions, in people would need to be reestablished. But, trust is a fickle thing and does not obey dictates. To regain trust banks would need to change their ways, the political elite would need to act decently and fairly, the business leadership would need to become less self-centered, the school system would need to deliver value for money by focusing more on the student and so on and so forth.

It is said that bankers hate two things: a) low interest rates and b) high inflation. The current high interest rates and fees are not sustainable, create a catch22 situation and need to be urgently revised. The Cyprus economy cannot bear this kind of bank rates and charges. Those players in the Cyprus economy that benefited from the old banking paradigm would need to look elsewhere for income as the banking industry will probably never be the same. The new banking system would need to be smaller and within the capabilities and potentialities of Cyprus. Gigantism should be a thing of the past. Not many rational investors would be willing to risk their money in a troubled economy that does not have a semblance of banking decency and respect for depositor and borrower. Cyprus needs to build a down-sized banking system literally from the drawing board if hope is to return to the banks, the peripheral financial industry and the market. The current *modus operandi* as regards banks is not sustainable just as the high interest rates are not sustainable. Breathing life into the banking system will not be easy as the mammoth (8-9bil) ELA (emergency liquidity assistance) burden is holding hostage both banks and government (as guarantor of the ELA debt). The high NPLs do not help the ELA situation either. New banks are unlikely to be set up but some of the more decent banks now in operation could play a more helpful role right away. In fact some are already doing so.

Banks are unlikely to accept the recommendation of a *debt hair-cut*, for some borrowers at least, which to the author looks like a rational option. Banks could support depositor hair-cuts, if necessary, but hate debt hair-cuts no matter how rational this option may be in the end. It all goes back to psychology and the sin of fear. Banks know that they will simply not get back fully what is owed to them because of the issues surrounding NPLs; even if they bankrupt their customers (and in some cases their guarantors). Better for the banks to consider a debt hair-cut than selling people's properties at forced-sale prices and then spending time and money in court trying to bankrupt borrowers and guarantors and in the end collecting only a fraction of what is owed to them. Both options lead to the same result: in the end banks lose money; except that the debt hair-cut option is more rational, less expensive, less harmful to the economy and less detrimental to the already bad name of some banks. Granted, a debt hair-cut would be a violation of banking principles but the banks already violated their own rules and customs by bailing-in depositors that once trusted them with their money. In my view the debt hair-cut violation will be less repugnant than the depositor hair-cut and will give the banks and their customers a chance to redeem themselves. Though rational, this option is unlikely to be accepted by the banks largely because of fears that this will encourage future borrowers to default. This fear is probably unfounded because under normal conditions the vast majority of people would settle their accounts promptly.

Real-estate prices are expected to continue to fall as more and more properties that now serve as debt collateral for NPLs, will start being auctioned off. Fewer properties will be auctioned off with a debt hair-cut. Mass auctions are likely to cause this spiral: a) property prices will fall just as customer net worth will automatically fall, b) many property owners will not only become poorer but they will also go into bankruptcy, c) disposable cash will reduce and this will hurt consumption further, d) government will be hard-pressed for revenues and as such will attempt to impose more taxes on less people to pay its bills (the public sector payroll is unlikely to reduce significantly because of voter politics) and e) government will be hard-pressed to increase its spending on social welfare but it will not have the money to do so (?more taxes). The above cycle is likely to spare the civil servants (and probably the banking employees) that are the sacred cows of the political establishment on account of their strong voting power.

The *public sector's general inefficiency* should be on the top of the list of priorities

of improvements that need to be made in the direction of growth. The current verdict of the GCI as regards the Cyprus civil service is not at all flattering. The Cyprus civil service (just as that of Greece) has become a complex web of unnecessary bureaucratic hubbub that literally throttles progress; both at businesses as well as at individual level. Bifurcation of interests between competing, rather than cooperating, departments makes delays in performing a task the rule of the day. Managers build absurd empires that are impregnable and of little use to the tax-paying citizen and businessman. The delay in the introduction and proper use of IT is creating frustration and hampers the work of business and the public. Some suspect that the e-government project is boycotted by those in the civil service that wish to exercise arbitrary power on the citizen through civil servant discretionary powers. Tiers of management were created over the years with a view to accommodating the interests of party apparatchiks and in the process efficiency was stalled and decision-making came to a near standstill. An untold number of committees and “coordinating” bodies, that often yield few if any results, bedevil the proper functioning of the civil service. The higher one goes in the hierarchy the more meaningless meetings one is asked to attend.

Lack of accountability and punishment is probably the single most important barrier to the proper functioning of the civil service. Thousands of telephone calls from the public remain unanswered and letters are rarely answered on time; if at all. The author reports the following anecdotal evidence from a recent interview he had with a taxpayer: on a visit to a government department this particular taxpayer was told that the computers were down and was asked to return later. He gave his mobile phone number to the attending clerk asking her to kindly call him once the computers were up and running so that he could return. Her response was, “you call me as many times as necessary to find out about the status of the computers.” This attitude would never be tolerated in any proper functioning organisation. Worse, Peter had no recourse knowing his complaint would go unanswered and that there would be no disciplinary action; of the 72,000 public service employees in Cyprus hardly anyone ever got punished in the last 20 years. The civil service efficiency and its cost will be central to the true recovery of the economy. And the question arises: are people hopeful that improvement will come soon? Probably not! The difficulty is that no country in recession can truly recover without an efficient bureaucracy.

The government is unlikely to take the tough decision of *laying off supernumerary public sector* employees because it will be terrified of the political cost this will entail and of the long-term effects of a reduced captive voter pool. Nor will the political establishment put pressure in the right direction. Reducing the public sector headcount by 4,000 by the end of 2016 through normal and voluntary retirement, as is the current plan, is not likely to solve the problem; their numbers are far too high. The way head count is reducing now also runs the risk of creating performance problems in an already low-performing sector; the current scheme does not provide for staff renewal. In a letter to a high ranking European Commission (EC) representative, and later member of the Troika, the author suggested an annual net reduction in head of 3,000 per year on the basis that for every 4,000 leaving, 1,000 would need to be recruited. This letter was acknowledged and forwarded internally to the ECB and the IMF. In this letter the author recommended that the program of annual staff reductions and renewal would need to continue until the public sector head count is reduced to about 70% of its pre-Troika size (e.g. the 52,000 civil servants to be reduced to about 36,000). But, applying the above suggestion to the full will take time and Cyprus is now short of time considering the way things turned out.

Now the author puts forward another alternative that would help government achieve results quickly, help reduce the tax burden on the economy and improve the economy's disposable income. The author recommends mandatory early retirement (starting with those with poor performance and poor attitudes) amongst employees aged, say, 50 or above. This is the group of employees that profited most from past bad practices, earned high salaries (much above EU norm) and contributed little if anything towards their pension. To reduce the possibility of creating social problems for this class and to reduce a possible negative impact on consumer demand the author recommends that these employees start earning pension immediately after they leave public service. The monthly pension to come out of the amounts earmarked for their natural retirement; thus, no extra cost to the taxpayer. These steps would need to be applied: a) calculate the cumulative expected pension at normal retirement (at 63 now) using actuarial data, b) divide the cumulative pension figure in "a" above with the years the employee is expected to earn pension from the day he leaves the service under the above recommended scheme, c) consider the figure from

“b” above as the redundant employee’s pension starting on the day he leaves the service. With current data a male civil servant is expected to live actuarially for, say, 15 years after normal retirement (at 63) earning total pension of 400,000 (15 years X 26,666: assumed figure). If the employee now retires at, say, 58 an additional 5 years of pension time would need to be added thus bringing the total period of retirement to 20 years. If we now divide 400,000 by 20 years the annual pension will drop to 20,000 (from 26,666) paid over 20 years instead of 15.

Investment in *asset maintenance and renewal and capital investment* is likely to improve slightly as businesses see their assets decaying and becoming obsolete. At some point lorries will need to be renewed and buildings will need to be painted and refurbished. But, such measures are not expected to save the day and will not impact strongly on the economy which is in great need of new investment. One traditional way of kick-starting the economy is for the government (or government plus private enterprise) to invest in real infrastructure projects that will provide employment and generate business activity. The problem with Cyprus is that the government does not have any money to invest in infrastructure as it is heavily indebted and soon will need to start repaying interest. Additionally, few if any promising projects exist in which to invest. Cyprus has done a terrific job on highway construction; for its size and economy Cyprus can claim some of the best roads in the world. Thus, most if not all major and necessary road-development programs have all but been completed. Cyprus gets another first for its dams that help the country collect winter rain for use during the dry summer months. This project has also been completed. The same applies to the desalinization program. The two major airports have been completed as well. There is, however, work to be done on Cyprus’ two ports. A promising project could be the building of a technological park; which has been long over due. Also, new marinas for the tourist industry could be another option. Surely one can think of other opportunities that can give the economy a gentle push.

Cyprus needs to improve the quality and distinctiveness of its goods and service if it is to improve its *export* position. Cyprus has a tiny domestic market and below EU average productivity. Both factors reduce the country’s export capabilities. A large domestic market often acts as magnet for foreign investment in areas such as manufacturing, for example, which in turn acts as platform for exports to other countries. Egypt, with its low cost of labour,

comparatively good universities and qualified professionals does that well in, for example, the manufacture of beverages and pharmaceuticals and software development. Cyprus is also hampered by low productivity which does not seem to improve despite the setting up of a productivity council that was supposed to spearhead the advancement of productivity. Productivity largely depends on the efficiency of labour, innovation and investment in technology. Cyprus sometimes finds it difficult to invest in technology on account of its tiny domestic market, minimal raw materials and tiny consumer market. For example, the packing of Cypriot fruit for export relies to a great extent on expensive labor rather than on machinery. The quantities of local fruit for packing and export are so small that they render uneconomic investment in high-capacity technology. This in the end pushes export prices up and makes the export of fruit not competitive.

Many of the international manufacturing companies that Cyprus played host to in the past have left: processing and packaging, e.g. Tetra pack, soft drinks, e.g. Pepsi Cola has stopped its bottling operations and is now thinking of restarting but employing just a mere 20 or so new employees, e.g. BAT left because it does not make sense for the company to be in Cyprus which has: a small market, little export potential, high labour cost and unions, inefficient civil service, restricted flights (Cyprus holds 64th position on “available airline seat km/week” on the GCI). In terms of manufactures Cyprus now exports generic drugs, cheese products, etc but in relatively small quantities. The pharma business is hampered by high energy costs, union constraints and a stifling bureaucracy. Garment and shoe manufacturing, that once stood as the bulwarks of Cyprus’ export economy are now a fading dream and a closed chapter. Low quality and high production costs drove the industry on its knees.

Cyprus can improve its export position if it manages to produce items that can offer *relative advantage* (based on quality and uniqueness rather than on price and competitive advantage). In other words, those products that are more advantageous to the customer than competing products. This is not an easy task, however, because the country needs first to build a name as producer of quality and distinctive products. History and past practice is not on Cyprus’ side. But, it can be done through transfiguration and radical change in business culture, innovation and work ethic that would support quality.

Countries that enjoy relative advantage are innovators and have a long history

of producing high-quality products, e.g. Germany and Switzerland. Cyprus missed opportunities to develop relative competitiveness in products in which the country traditionally had a historic advantage. Cyprus' viticulture goes back 4,000 year. The same applies to cheese products. These areas should be revisited and put on relative advantage mode. Cyprus has great promise in the IT area provided it organizes itself well and its people adopt high work standards. With sound planning and a proper road mapping much can be done. Who would have ever imagined years back that Lebanon would now be export high quality sweets, even chocolates and, of all things, designer cloths? *Internal devaluation* (decreased wages) should not be encouraged except perhaps in select cases. Nor is leaving the euro zone and bringing in a debased currency an option.

The *services sector* has the potential to contribute to exports but needs to be re-designed, some sectors cleansed and others upgraded. The shipping sector has great promise considering that Cyprus is an ancient shipping nation and with some of the world's largest shipping companies already in Cyprus. Tourism has not reached its potential despite optimistic predictions and needs urgently to upgrade standards (including cleanliness beyond the space of the hotel premises) so that its product can earn a higher quality rating. At the moment Cyprus tourism lies in 29th place.⁴⁵ Tourism and shipping continue to provide some comfort to an economy in distress. As for the legal and accounting services that thrived in pre-crisis times these would need to re-invent themselves as the Cyprus financial sector has lost trust both domestically and internationally and trust is difficult to regain. The after-effects of the breakdown of the financial sector and all that followed (blocking of accounts, initiating exchange controls, depositors losses and so on) will stay with Cyprus for a long, long time. The fact that exchange controls in various forms were instituted in March 2013 have all but shattered Cyprus' image as an open "financial center." Worth remembering that Lebanon went through a devastating 20-year civil war but never put in place exchange controls ostensibly to protect its banking system. The Lebanese were well aware of the long-term damage that this would cause to the inflow of foreign exchange from its expatriates and investors from the region.

Quick fixes such as granting residence visas to promote property sales are not going to help growth and send the wrong message. The granting of permanent stay status leading ultimately to citizenship rarely attracts the investors that the country

needs. Investors that see a true business opportunity will come to Cyprus anyway and will secure a visa speedily. All countries like to see a good investor come to their country. The long Canadian experience with visas and citizenship (Canada has a scheme similar in philosophy to that of Cyprus) has let them consider scrapping the scheme all together. Recently Chris Alexander, Canadian Minister of Citizenship and Immigration told CBS⁴⁶ that the Canadian government will be scrapping the immigrant-investor program because, *“This was not a program that was generating jobs, growth, opportunity in Canada and it was certainly not a program that was getting the immigrant investors we wanted,”* Selling land and bringing back the Ponzi schemes of the past is not the proper way to kick-start the economy though on the surface this may look an attractive proposition that can bring some financial respite to the hard-pressed property sector and real estate developers most of whom are all but bankrupt.

Cyprus needs to revisit its education system to help the long-term development of the country. Cyprus needs to revisit its educational standards at all levels and, from the economy’s point of view, improve the connectivity between education, skills and market needs. Maybe its time for Cyprus to study in some depth the features of the German system that qualifies graduates to work in the market place. For a small, and in the case of some sectors unsophisticated, economy Cyprus has far too many in academic streams and too few in technical /service streams even though latest figures show a slight shift towards technical subjects. Of a total student population of 42,205 in the academic stream there were 4,800 in the technical stream (250 students more than last year).⁴⁷ Counselling and career planning would need to improve as well. Indicatively the figures coming from the ministry of health show that the market is flooded with hundreds of unemployed nursing graduates that rushed off to prepare themselves to fill a need which by the time they completed their studies had already been filled.

As far as tertiary education is concerned more emphasis should be placed on value for money and outputs rather than costs and inputs. Competing on cost to attract foreign students is not the answer. The State should provide more support, e.g. guaranteed loans to local meritorious students wishing to attend private institutions to help upgrade the intake of students in these institutions. With the current modus operandi private institutions are unlikely to move to the next stage of their development as issues of economic survival will weigh them down. Private tertiary education institutions charge their students only a

fraction of what a student attending a public institution costs. By upgrading their finances private institutions will then be able to upgrade their academic standards. This in turn will help them earn improved academic ratings which in turn will help them attract quality foreign students as well.

The voices that were clamouring for Cyprus to *leave the euro zone* have to a large extent fallen silent once it became clear that leaving the euro zone was not a viable option. Leaving the euro means that Cyprus will need to adopt a new and “unrecognised” currency that would likely create inflation which in turn will destroy Cyprus’ import-reliant economy. A run on the already discredited banks would certainly follow as savers rush to find more stable places to put their money. Cyprus will open itself to currency volatilities once it leaves the common currency of the euro. Potential investors will shun Cyprus on account of a weak currency and exchange controls that will almost certainly follow. Rolling over of government debt would be difficult, if not impossible, as investors will not be willing to buy the new government bonds denominated in a new and unknown currency which will probably lead Cyprus to default. Stagflation could follow as inflation and unemployment will both rise; for a while at least.

Now Cyprus has the Troika managing its major economic affairs and the Troika wants its money back in euro. To ensure that this happens the Troika is demanding changes from Cyprus even if these cause unemployment and business failures. Troika knows that its policies are certain to cause unemployment and business failures in the short-term. It seems that the Troika is concerned mostly about the long-term and as such does not show the level of sensitivity one would have expected from them to the suffering or those losing their job, their businesses and even their houses. True to Schumpeter’s edict the Troika wishes to see the recession take its course as a long-term cathartic process (in their view). Troika also assumes that after they leave Cyprus their changes will hold. And here lies the crux of success and failure.

In the absence of an integrated program on how to come out of the recession one hears piecemeal *impromptu (and often not-well-thought-out)* recommendations from various sectors including: a) “*the government should get involved in the capitalisation of the banks either as direct shareholder or as guarantor*” forgetting that Cyprus’ debt is already 111% of GDP and will soon rise to 120%, b) “*extend shopping hours to weekends*” forgetting that though good this measure may be it

will not really make any difference considering the fact that consumers are cash strapped and on top of that they are forced to pay a host of taxes and repay loans, c) “*turn Cyprus into a services centre*” forgetting that this is a rehashed idea and that the last time Cyprus acted as a “*financial centre*” it ended up with a collapsed banking sector and d) “*allow the setting up of casinos*” forgetting the social fallout of such a project and the fact that casinos just provide another dangerous entertainment option which never saved a single economy. If one casino is going to save the economy why not build nine?

For the foreseeable future Cyprus’ economy is unlikely to go anywhere largely because of the following: a) low trust in Cyprus’ discredited banking system and nearly all other institutions, b) austerity measures with little concern for investment, c) explosive public debt including government guarantees for banks, municipalities, etc, and d) below par public debate that hinders integrated planning. Even if one sees from time to time spurts of improvement the muddle is likely to continue for years. Impromptu and superficial action is not going to help. A holistic, rather than a piece-meal, approach is needed. To use Porter’s language Cyprus would need to “*combine activities*” and create a “*strategic fit.*” Taxing to make ends meet and boasting about temporary primary surpluses does not help. Cyprus will probably have to first reach bottom with all that this entails as regards hardship and loss of potential GDP. Japan (with a debt to GDP of about 200%) is still struggling to recover from a recession that was started in the 1990s. But, Japan has its own currency that can shelter her against its vast debt. And most importantly Japan’s economy is in the top five economies of the world and does not suffer from a trust problem. Japan is serious about its economy. Most of the old economic paradigms of Cyprus have proven to be wrong and any attempt to revive these will perpetuate the recession if not worsen it. Nothing can replace sound and honest planning.

The Cyprus economic case study as analyzed above can teach us a lot regarding how a country can get into recession and stay there longer than expected. Here are some of the major lessons learned. We learned that:

- 1) When *trust* in an economy (and a country) is lost it takes a very long time before it can be regained. (Foreign investment is nowhere to be seen in Cyprus). Remorse, personal responsibility for errors committed and a genuine desire for a fresh and decent start are just a few of the essential parameters in this regard.

- 2) *Quick fixes*, piecemeal approaches and public relations fireworks that are designed to create an atmosphere of euphoria do not work. These kind of approaches are not serious and do harm in the long-term. (see Cyprus' migrant investor scheme and its link to the real estate business and talk about casinos!)
- 3) *Unrestrained austerity* that is designed to balance the government's books but which in the meantime ruins people's lives and creates mistrust in the lender is unwise; more sensitivity to people's needs and feelings is needed. Better to take a softer approach even if this tends to delay change. (see Cyprus' austerity measures that have put out of work 17% of the Island's working population and forced many to migrate).
- 4) Under conditions of severe financial strain *democratic processes can be sidestepped* on account of lender pressures; this kind of phenomenon creates a cascade effect and tends to justify further violations (if you have done it once why not do it again?) Democratic processes are indivisible and sacrosanct and are not meant to be trampled upon for economic reasons and on account of lender pressures/bulling. The lenders will one day leave the country but the effects of the violations of democracy will linger on and may even act as precedent for future violations. (see Troika pressure on Cyprus parliament to rush through bills of great importance to the country and its economy).
- 5) *Weak countries* with a small economy but with a major political problem on their hands (occupation by the Turkish army of nearly 40% of Cyprus' territory) have little negotiating power when they come up against big-time international players of the Eurogroup. When the negotiators of small and weak countries are inexperienced, with only rudimentary understanding of history and ill-prepared, they are likely to be over-awed by the presence of powerful interlocutors, succumb to fear and not to have the stomach to put up a fight for their country. (See period just before the depositors bail-in)
- 6) *Panic and naïveté* often force governments to take measures that in retrospect look ludicrous and even derisory. Feeling the breath of the Troika the Cyprus government sent urgently an emissary to Russia to secure alternative and additional funding to cover its cash flow shortfalls and to roll over loans falling due (including one to Russia itself!) The trip was ill-fated from the start, ill-prepared, hurried and most importantly Cyprus had no business

plan to offer the Russians. The Cyprus emissary just asked for money; period. As expected the Cyprus hapless representative was sent back empty-handed. To the Russians Cyprus' naïveté seemed to have no bounds considering that the Cyprus government was making commitment after commitment to work speedily towards Cyprus' membership of NATO; which in the Russian government's view is trying to encircle the Russian Federation. See other naive measures such as compensating with a citizenship those depositors that suffered a hair-cut of 3mil or more and thinking that this exchange would placate the hapless investors that trusted Cyprus' banking system with their money.

- 7) Lenders (the Troika in this case) can turn a minister of finance into a *rudimentary project officer* by taking away from him the right to formulate economic policy and to employ his discretionary powers. Lenders to government are no different to other lenders that have the right to take over the management of a corporation with an insolvent debt. Banks do it all the time. Debate over economic matters all but vanishes if the issues to be debated are covered by agreement. "*This is what the Troika wants us to do,*" is the mantra of the ministry of finance whenever there is legitimate concern on any issue that has been agreed with the Troika. This practice naturally raises many serious matters including that of the emasculation of the legislative branch considering that parliament has to follow willy-nilly whatever the executive branch agrees with a third party.
- 8) When the economic crisis started to assert itself the government quickly set up all sorts of committees staffed mainly with tertiary level educators and blatantly excluding well-educated and well-rounded professionals from business and industry and the professions. The government had fallen into the trap of thinking that people with solid business experience, in-depth knowledge of the market and who have set up their own businesses successfully and in the process generating wealth for the country are just "practitioners" who have no business advising government on policy formulation. At its peril the government under-estimated the value of business people with a successful track record and as such hardly got a complete picture of the realities of business. If anything, the government should have at least encouraged debate between educators and managers with real-life experiences before making policy decisions. The author

understands that some of these committees rarely meet and are more decorative than real.

- 9) Banks also crush just as any other business. *Not all banks can be trusted with depositors' money* particularly as banks can ally themselves with government to turn (legally!) unsuspecting depositors into shareholders whether they like it or not. Incompetent bank managers can think of all sorts of devices (including the charging of exorbitant interest rates) to make money in the short-term whilst endangering the bank's long-term viability. Cyprus has seen bankers gamble with depositors money. When banks start offering inflated interest rates to depositors they mathematically start getting into risky investments. Regrettably, some depositors are willing to risk their money for the temporary enjoyment of high interest rates. (see Cyprus' 4.5% interest on deposits versus Germany's 1-2%).
- 10) *Public sector head count* will not reduce easily as governments in general are loathed to take on the public sector unions for no other reason other than their voting power. No well-run company will tolerate for long having supernumerary staff paying them above-median salaries; yet the Cyprus government is willing to wait and wait until numbers are reduced through attrition or through attractive severance packages and until the Troika leaves the island. (see the government's hasty retreat on its decision to tax government funded lump-sum payments to retiring public sector employees).
- 11) *The collapse of the banking sector* of any country coupled with a *high public debt* is a lethal cocktail that guarantees the economy to stay in a quagmire for a very long, long time. Under such conditions any fickle signs of optimism are typically followed by pessimistic news. Unemployment figures are a surefire sign as regards the direction of the economy. These are unlikely to drop. Unemployment rates are obstinate and difficult to tame. (see government's unsuccessful efforts to reduce unemployment through all sorts of ill-planned schemes).
- 12) *Salaries are by and large resilient to recession*. Employees would rather experience all sorts of unpalatable measures than see their salaries reduce. Policy-makers should not rely much on falling salaries to encourage employers to hire more people (it does not work like that) or to generate what is commonly known as "internal devaluation" that in turn makes a

country's exports more attractive (it does not work like that either). Better to concentrate on raising productivity (rather than lowering wages) to gain competitiveness. (see marginal drop only in median salaries in Cyprus despite the recession and the discouraging prospects of the economy).

- 13) *Employers are not likely to employ new staff* even if salaries fall significantly. Companies are unwilling to employ new staff to produce what they cannot sell domestically or in the export market (see the substantive failure of the government's subsidization of salaries scheme to tempt employers to give jobs to the unemployed).
- 14) Despite pronouncements to the contrary people do not seem to learn from bad experiences. For many people the tendency to revert back to the old ways is almost second nature. Most people understand that bad decisions have the nasty habit of coming back to haunt them. Yet, they would agree to such decisions if their negative impact is expected to manifest itself in the distant future. (See ongoing attempts to repeat the real estate mistakes by concentrating efforts to revive the economy on the selling of land and property that originally created the property bubble). (Interesting to read "The Wealth and Poverty of Nations").⁴⁸
- 15) *Real estate bubbles* are a recurring phenomenon in economic history; America's recent recession all started from the property bubble. Yet people fall into the same trap time and time again knowing full well what will happen at the end. People know that something must be wrong when they see the value of a piece of land shoot up five-fold literally overnight whilst the fundamentals of the economy remaining unchanged. People fall victim to the illusion that everyone can make money at the same time by selling property to each other ad infinitum. In fact the Cyprus banking crisis and the distrust in banks may have already sown the seeds of the new property bubble as people start looking for the "safer" haven of the property market for their money. The expected mass auctioning of properties (see the many people that are now trapped with properties of little value and loans that are beyond their capacity to repay) and property taxes will only help slow the inevitable process towards the new property bubble.
- 16) The economic crisis has once more highlighted the strength of the *family unit* and how important strong family ties are in supporting those that are

in need. The Cypriot family rallied around its unemployed members, gave them succour and emotional support. Welcomed unemployed children (even married and with their own children) back to the family home because parents saw fit to support their children until the last days of their lives. Another institution that comes out of this crisis with flying colours is the Orthodox Church that got going from day one opening up hundreds of its churches to provide free food and offer provisions to the needy with no questions asked. Pious people donated to the church generously and hundreds thronged to the churches to provide their services free of charge; preparing breakfast for needy school children, cooking meals for the destitute. No wonder the people of Cyprus consistently rank church and family as the most respected and cherished institutions. Cyprus is rated among the top 2 countries in the EU in terms of church going; this goes to explain much of what is described above.

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Les défis de la Méditerranée orientale

Miguel Ángel Moratinos Cuyaubé*

RÉSUMÉ

Miguel Moratinos retrace sérieusement et avec beaucoup de diligence le passé souvent ravagé par des conflits de la région de la Méditerranée orientale en soulignant l'importance de la région à travers l'histoire. L'essai fait référence à l'impact sur la région de: a) la chute de l'Empire ottoman, b) la fin de la Seconde Guerre mondiale, c) la création de l'OTAN et de l'attribution par les États-Unis et de l'OTAN à la Turquie du.. rôle de gendarme régional au détriment des autres pays et surtout de la Grèce et Chypre pays alliés de l'OTAN, maintenant demi-occupée par les troupes turques, d) l'impact sur la zone de la guerre froide et ses conséquences après la chute du mur de Berlin et e) le nouvel antagonisme entre les États-Unis et la Russie qui apporte dans la mêlée d'autres pays, par exemple l'UE risque de perdre beaucoup de l'application des sanctions américaines sur la Russie en raison de la crise ukrainienne.

ABSTRACT

Miguel Moratinos 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.

Parler de la Méditerranée en ce début de siècle c'est inévitablement évoquer les différents conflits qui sont toujours présents dans cette région du monde, et qui malheureusement n'ont pas été encore résolus, et en même temps c'est souligner les nouveaux défis qui se dessinent à l'horizon de cette mer toujours

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porteuse d'espoir et de tragédie. Cet espace hétéroclite, si parfaitement défini et étudié par Fernand Braudel, reflète pleinement les multiples contradictions de ce monde global qui est aujourd'hui à la croisée de nos destins.

La Méditerranée a nourri et inspiré la production de milliards d'œuvres et d'études. Des travaux qui, en ligne générale, se sont centrés sur son aspect géographique, culturel, historique ou sociopolitique. Ainsi, à l'exception du grand travail de l'érudit français Braudel il n'y a pas eu récemment d'étude globale et intégrale des réalités et des problèmes que la Méditerranée présente de nos jours. Pourtant cela mériterait le temps et le travail d'une équipe multidisciplinaire et multiméditerranéenne. Une équipe qui pourrait, sous la direction politique appropriée, donner un sens à un travail de perspective tellement urgent pour garantir notre futur.

Cela dit, si ce manque d'intérêt sur la question méditerranéenne est une réalité, le désintérêt est encore plus important en ce qui concerne la partie orientale de cet espace géographique. Ainsi, on se réfère le plus souvent à la Méditerranée orientale comme «Proche Orient» ou «Moyen Orient», en oubliant la nature et l'identité méditerranéenne de cette partie du monde. Il est vrai que depuis que le conflit israélo-arabe a commencé, celui-ci s'est approprié l'intérêt majeur des chancelleries occidentales en reléguant par conséquent la Méditerranée orientale à un rôle secondaire.

Pourtant, ce second rôle ne correspond pas à la place et à l'importance que la Méditerranée orientale a eu pendant toute l'histoire. On en oublierait presque l'origine de notre culture et de notre histoire. La Méditerranée antique, comme elle est décrite dans le récent livre *«Méditerranée: une histoire à partager»* sous la direction de Mostafa Hassani-Idrissi, trouve ses racines dans «[...] La Mésopotamie, la région des grands fleuves qui s'étend à l'est de la Méditerranée. [...] L'invention de l'écriture et de la cité, c'est à dire le développement des sociétés complexes, se sont produits dans cette Méditerranée orientale.»¹

Ce rappel historique sert en fait à renforcer l'idée de l'importance stratégique de cette région du monde. Ainsi, cet espace, ce «Lighthouse of the Mediterranean» en reprenant les mots de l'historien David Abulafia², est celui où Alexandre Le Grand établit son centre de gravité par rapport à la Perse et à l'Égypte. Et cet intérêt géopolitique de la Méditerranée orientale reviendra à nouveau à la fin du XIX^{ème} siècle et au début du XX^{ème}. Cette «cinquième

Méditerranée» dont parle David Abulafia, commence son parcours à partir de son côté oriental, c'est la fameuse «question d'orient».

La Turquie se place d'ailleurs au centre des enjeux stratégiques de toute la région. «L'enfant malade» va de fait faire boussuler toute la sous-région avec sa décadence et finalement sa chute à la fin de la Première Guerre mondiale. La désintégration de l'Empire ottoman va provoquer une série de crises qui vont s'étendre des Balkans jusqu'au Proche Orient.

Le Traité de Versailles³ et le Traité de Lausanne⁴ vont du reste clairement illustrer l'intérêt stratégique de cette région et l'évolution de nouveaux états qui vont voir le jour. Chypre est un cas particulier du fait de sa position géographique et en tant que plateforme de bases militaires. Une île qui se trouve sous l'emprise de l'ambition britannique. Le Traité de Lausanne en 1923 réussit d'ailleurs à entériner cette présence avec l'accord formel de la Turquie et de la Grèce.

Depuis lors, les principales préoccupations vont se déplacer vers les questions moyennes orientales et la rivalité gréco-turque, sans un cadre plus général méditerranéen. La Méditerranée ne va donc pas faire partie de l'agenda prioritaire des états de la zone pendant ces années-là.

Néanmoins, on assiste au retour de la Grèce. L'esprit hellénistique retrouve son élan avec l'arrivée de Elefterios Venizelos. Son leadership et son talent politique vont faciliter l'influence grecque dans les décisions de la Conférence de Paris, qui seront reprises en grande partie dans le Traité de Versailles. Mais à part la personnalité et les capacités politiques et diplomatiques de ce nationaliste crétois, comme dira Margaret Macmillan dans son livre *Peacemakers: The Paris Peace Conference of 1919 and Its Attempt to End War*: «La Première Guerre mondiale changera complètement le paysage. Les Ottomans avaient choisi le camp des perdants et Venizelos et la Grèce celui des gagnants.»⁵ Toutes ces circonstances vont faciliter le changement de stratégie de la majorité des grands acteurs et notamment des britanniques. «Les anglais qui pendant si longtemps avaient soutenu la Turquie ottomane, maintenant avaient besoin d'un partenaire alternatif afin de maintenir la partie la plus à l'est de la Méditerranée en sécurité pour ses bateaux. Il était clair qu'ils ne désiraient pas l'extension de l'Empire français là-bas et qu'ils ne voulaient pas, si possible, dépenser leur argent. Ce qui fit de la Grèce, une Grèce forte, si attirante. Les principes et les intérêts se sont commodément chevauchés. La Grèce était

occidentale et civilisée tandis que la Turquie ottomane asiatique et barbare. Et Venizelos était si admirable, «le plus grand chef d'état que la Grèce ait eu depuis le temps de Périclès» selon l'opinion de Lloyd George. Une Grèce plus forte serait donc un allié parfait.»

Cette alliance gréco britannique était tellement forte que même sur les sujets compliqués, tel que pouvait être Chypre, les autorités grecques et Venizelos lui-même étaient d'accord pour donner satisfaction aux intérêts anglais. «Si les anglais voulaient remettre Chypre aux Grecs, ce serait magnifique et bien évidemment la Grèce laisserait les forces britanniques utiliser les bases là-bas, si les britanniques voulaient les maintenir, c'était aussi très compréhensible...»⁶.

Toutes ces références historiques nous servent en fait à mieux comprendre comment la Méditerranée orientale au début du XX^{ème} siècle mais surtout à partir de la fin de la Deuxième Guerre mondiale va de nouveau peu à peu se réapproprier un rôle fondamental, étant donné les différents enjeux stratégiques qui vont apparaître. La chute de l'Empire ottoman, le façonnement du Proche Orient et les différentes crises aux Balkans vont attirer une nouvelle fois l'attention des grandes puissances sur cette sous-région.

Ainsi, la fin de la Deuxième Guerre mondiale et la nouvelle répartition des rapports de forces sur la région vont à nouveau changer les axes essentiels de la géopolitique de la Méditerranée orientale et établir de nouveaux équilibres. La dialectique bipolaire va de ce fait s'imposer. La Guerre Froide et la division en deux blocs vont se transférer sur la position et l'intérêt de chaque pays de cette région. La confrontation est-ouest va se sentir aux Balkans, au Proche-Orient, et tout particulièrement à Chypre. La création de l'Otan et l'adhésion de la Turquie à cette alliance politico-militaire, comme rempart et gendarme des intérêts américains dans toute cette zone, vont affaiblir l'empreinte méditerranéenne des politiques nationales et les remplacer par un «Atlantisme» éloigné et étranger à la région. Il n'y aura donc pas de politiques méditerranéennes, ni occidentales, ni orientales, il y aura seulement une lutte hégémonique pour contrôler la navigation en Méditerranée et la présence de la flotte russe ou de la cinquième flotte des États-Unis seront les seuls éléments à retenir jusqu'à la chute du mur de Berlin.

C'est dans ce contexte que nous devons analyser les développements des politiques de la Méditerranée orientale, chacune d'entre elles avec ses limites et ses contraintes, comme cela fut le cas pour Chypre.

1. Le cas de Chypre

L'île de Chypre est très significative pour mieux comprendre la réalité de la Méditerranée orientale. Pendant toute son histoire, cette île – continent, proche du levant, a vécu l'arrivée de multiples présences et reçu l'influence de différentes cultures et civilisations. Depuis la période néolithique, environ en l'an 3.700 av. J.-C, l'île fut colonisée par les Phéniciens puis plus tard par les Achéens qui apportèrent la langue et la religion grecque pour accueillir postérieurement les Assyriens, Macédoniens, Egyptiens, Perses, Romains, Byzantins jusqu'à l'influence des Sarrazins.

Cette île a toujours été convoitée par les grandes puissances et a donc souffert directement des confrontations des différents acteurs qui voulaient exercer leur hégémonie à travers la domination ou le contrôle de l'île.

Cette «île paradis» qui a tout pour justifier son caractère mythique n'as pas échappé au sort de la tragédie grecque. Comme le dit Jean-François Drevet dans son livre *Chypre en Europe*, «L'histoire récente de Chypre est tragique. [...] Placée au carrefour d'intérêts qui les dépassent, ses habitants en paient le prix fort, sans même avoir pu décider de leur sort.»⁷

Cette conscience collective d'impuissance nationale a toujours été présente dans l'histoire de cette nation. Un sentiment d'injustice, de conspiration, d'intérêts sordides qui planent toujours sur l'imaginaire collectif des chypriotes. Cet article ne voudrait pourtant pas raviver la théorie de la «conspiration»⁸ mais souligner cependant le sentiment général de la population chypriote qui se considère toujours malmenée par les super-puissants.

L'échec des négociations pour réussir l'unification de l'île à la suite de l'adhésion de Chypre à l'Union Européenne n'a pas facilité ce changement d'esprit. Quarante ans après l'occupation de la partie nord de l'île et onze ans après l'entrée dans l'Europe, la situation semble figée. Le temps passe et le statu quo se consolide. La récente crise financière et économique que Chypre a vécue n'a pas amélioré l'attitude générale de la société chypriote. Les graves erreurs de la gestion de l'Union Européenne vis à vis de la crise financière chypriote⁹ ont éloigné une grande majorité des chypriotes de leur vocation européenne. Et cela au moment où la seule porte d'espoir et de solution au futur de Chypre passe par une implication de l'Europe, plus grande et plus intense.

Cette nouvelle politique qui devrait voir le jour les prochaines années devrait

prendre en considération les nouveaux enjeux et la nouvelle réalité existante dans cette Méditerranée orientale dont Chypre est toujours une plaque tournante en tant que témoin des développements des événements de toute cette région du monde.

2. Quels sont donc les nouveaux enjeux de la Méditerranée orientale?

Personne ne peut nier les profonds changements qui sont en train de se développer dans le monde en général et donc bien évidemment en Méditerranée orientale.

Loin de la globalisation, le voisinage méditerranéen est confronté à des mutations stratégiques qui marquent une fin de l'histoire et le début d'un changement de paradigme. Cent ans après le déclenchement de la Première Guerre mondiale et la chute de l'Empire ottoman, nous nous retrouvons avec une région tourmentée par de multiples crises qui vont modifier sans doute l'équilibre politique de toute la région.

3. Une nouvelle géopolitique

Quand on croyait la Guerre Froide complètement enterrée, voilà qu'elle resurgit suite à plusieurs disputes territoriales (comme le cas de l'Ukraine) et à des désaccords géopolitiques. La crise syrienne est le début du réveil de la diplomatie russe et marque le retour d'une politique étrangère plus active de Moscou. La crise financière de Chypre et les mesures prises sur les dépôts financiers russes dans les banques chypriotes signalent une continuité dans le manque d'entente entre la Russie et l'Occident.

L'activisme de l'Otan se renforce mais cette fois-ci d'avantage vis à vis de l'Europe centrale et des pays du Caucase que vers la Méditerranée ou les Balkans. En tout état de cause nous voilà repartis vers une nouvelle confrontation est-ouest tout à fait inutile et coûteuse pour tout le monde mais surtout pour l'Europe et la Fédération russe. Cette situation de suspicion et ce manque de confiance mutuelle n'arrangeront en rien le développement de toute cette région.

Mais si le contexte traditionnel a changé et les aléas d'une influence est-ouest

vont à nouveau assombrir le paysage géopolitique, les changements les plus importants se tiendront surtout à l'est et au sud.

La Méditerranée orientale est la plus proche de tous les changements que le monde arabo-musulman est en train de vivre. C'est dans cette partie de la Méditerranée que l'on a assisté aux crises majeures et c'est là aussi où a surgi ce que l'on a appelé les «Printemps arabes». Même si l'origine de ce tsunami politique s'est produit en Tunisie, c'est-à-dire en Méditerranée centrale et que la Lybie a subi ensuite les conséquences de ces révoltes domestiques, c'est surtout l'Égypte et la Syrie qui ont marqué le pas de tous les événements qui ont suivi.

Rien ne sera comme avant et les rapports entre les différents pays changeront sans aucun doute. Le processus de réforme et la participation politique sont irréversibles et même si nous assistons à des hauts et des bas dans ce chemin vers la modernité, il n'y aura pas de retour en arrière. Cela ne signifie pas que l'Islam politique sera le vainqueur de ce changement de paradigme. Pas du tout. Il faut croire en la maturité des sociétés arabes qui permettra au fur et à mesure d'avancer vers une modernité propre, différente de celle que nous, occidentaux, voulons imposer, mais aussi éloignée d'une théocratie islamique qui n'a pas su trouver et qui aura des difficultés à trouver une légitimité comme alternative politique pour tous ces pays.

Cette éclosion des sociétés arabo-musulmanes ne devrait pas faire peur aux chancelleries européennes et occidentales mais par contre elle devrait mobiliser de toute urgence toute l'Europe pour accompagner et répondre aux multiples défis de chacun de ces pays.

Le cas de l'Égypte est clair. Après l'échec d'une transition islamique, il faut que la deuxième transition autoritaire puisse préparer le pays en vue d'un véritable processus de démocratisation et mettre en valeur les principes et règles de la modernité.

La Syrie, la Lybie sont au fond du tunnel et nous ne savons pas encore comment elles évolueront. Tout ce déchirement social et politique nous montre un espace méditerranéen fragmenté, divisé qu'il est difficile d'unifier mais qui nous interpelle et au secours duquel nous devrions tous courir.

Cette instabilité est aussi présente à l'Est. Le Proche Orient n'arrive toujours pas à trouver une stabilité méritée. Presque un siècle plus tard, la région vit

toujours une réalité de violence et de souffrance. On dirait que la Terre Promise reste toujours une promesse inachevée. Ni les acteurs directement concernés ne trouvent une solution ni la communauté internationale ne s'engage réellement pour forcer un règlement tellement nécessaire pour tous. Il existe une sorte de «fatigue diplomatique» et un épuisement d'idées et d'initiatives pour mettre fin au conflit israélo-arabe. Israël, l'autre grand sujet de la Méditerranée orientale, n'arrive pas à construire une vision et une stratégie pour son futur. La dimension méditerranéenne est négligée et seule compte la survie de l'Etat d'Israël. Israël donne la priorité à une politique limitée à la défense de son état, un état qui devrait vivre en paix et en sécurité avec ses voisins. De plus, le retard pris pour adopter la solution de deux Etats, Israël et Palestine, n'aide en rien pour enfin bâtir une région prospère et stable. La paix semble malheureusement s'éloigner et les radicalismes s'imposent en étouffant les secteurs qui souhaitent la paix et qui travaillent pour elle depuis des années. La peur, la haine, l'exclusion, les rejets gagnent du terrain et les discours de respect de l'autre, de coexistence et de paix sont abandonnés car ils font partie de plus en plus d'une théorie utopique impossible à réaliser.

4. De nouveaux enjeux idéologiques

À ce nouveau contexte géopolitique viennent s'ajouter de nouveaux objectifs idéologiques. En fait, derrière ces confrontations politiques et militaires, se cachent une vision et un modèle de vie différent.

La simplification nous ferait aller vers la thèse de ce que le sociologue américain Samuel Huntington appelait le «Choc des civilisations», mais sans approuver son raisonnement et même en le dénonçant, nous devons inévitablement constater que nous sommes face à une réalité nouvelle qui n'existait pas il y a quarante, trente ou même dix ans. L'intervention militaire américaine en Irak a ouvert la boîte de Pandore et tous les mythes et toutes frustrations de ce monde musulman qui a subi la politique «des deux poids et deux mesures» se sont retrouvés dans le radicalisme islamique qui est de plus en plus présent dans toute la région. Jamais auparavant nous n'avions assisté à des luttes idéologiques aussi exacerbées que celles de nos jours: Chiites contre Sunnites, Chrétiens et Musulmans confrontés sans le vouloir. Pourtant tous utilisent les fonds de commerce des religions pour essayer de s'emparer du pouvoir politique. La manipulation et le manque de vision pour éviter ces

conflits culturels et religieux sont malheureusement bien présents. «L'Alliance des civilisations» a voulu faire face à cette situation mais elle manque ces jours-ci d'un élan politique et d'une détermination suffisante pour reconduire cette tendance de plus en plus dangereuse.

La fausse dialectique «Islam versus Occident» fait son chemin, elle s'amplifie, depuis l'Afghanistan en passant par l'Irak, l'Iran, le Proche Orient, le Sahel et l'Afrique Centrale. Les combattant djihadistes se multiplient. La Méditerranée orientale se trouve ainsi au centre de ces circuits et à l'avant-garde des intérêts occidentaux. C'est cette nouvelle réalité géopolitique qui devrait prendre le relais sur les anciennes thèses est-ouest et redonner à la Méditerranée orientale une nouvelle responsabilité géostratégique.

5. De nouveaux enjeux économiques

La Méditerranée orientale n'a jamais eu un attrait économique particulier. Elle a presque toujours servi comme endroit de passage vers d'autres destinations plus intéressantes, économiquement parlant, vers la route de la soie, les Indes orientales, le Canal de Suez. Tous ces aventuriers et commerçants devaient emprunter la Méditerranée orientale pour accéder à leur Eldorado mais les grands enjeux économiques étaient un peu plus loin, au Golfe, en Asie ou dans le Pacifique. De plus, les économies de la sous-région méditerranéenne s'étaient toujours limitées à satisfaire les besoins nationaux, sans une grande capacité de production. L'agriculture et les modestes ressources minières étaient la seule production économique générale dans la région.

C'est pour cette raison que la récente découverte d'une zone d'exploitation d'hydrocarbures, considérée par les experts comme une des réserves les plus importantes du monde, peut parfaitement changer la donne et les intérêts géostratégiques de cette région du monde.

L'accord qui à l'époque a été signé entre la famille Al-Saoud et les États-Unis «oil versus Security» est largement connu. Aujourd'hui cette réalité, toujours présente, peut être modifiée par de nouvelles capacités de production des États-Unis avec le «shale gas and fracking» (Gaz de schiste) et avec les perspectives d'exploitation qu'offre la partie orientale de la Méditerranée. Israël, le Liban, l'Égypte, la Turquie et Chypre revendiquent une participation et un bénéfice légitime à ces richesses et demandent chacun d'entre eux un contrôle sur les

exploitations. Le droit international doit en tout cas prévaloir et accorder la souveraineté de ces richesses selon le partage et les règles du droit de la mer. Mais cette titularisation ne doit pas empêcher de trouver un accord historique qui pourrait changer la géopolitique de toute la région. Pour une fois, le pétrole et le gaz pourraient servir de catalyseur pour unir et résoudre des contentieux et non afin de diviser ou de chercher la confrontation comme il est malheureusement habituel.

Même si la suspicion est encore présente entre les pays concernés, il serait recommandable de créer une Haute Autorité énergétique. Celle-ci pourrait s'inspirer de la Haute Autorité créée en 1951 pour le charbon et l'acier, qui permit de mettre ensemble la production et l'exploitation de ces deux énergies de l'Allemagne et de la France, afin d'éviter une nouvelle guerre et qui fut, comme on le sait, le début de ce qu'est aujourd'hui l'Union Européenne.

A mon avis, Chypre pourrait jouer le rôle moteur dans cette initiative et proposer à ses voisins et partenaires, à travers une déclaration solennelle, cette nouvelle entreprise historique.

6. De nouveaux intérêts géostratégiques.

Aujourd'hui tous les pays de la Méditerranée orientale doivent s'interroger et identifier clairement les nouveaux enjeux géostratégiques. Il est nécessaire qu'ils se placent à nouveau face aux enjeux réels qui se présentent à eux. L'est-ouest n'est plus l'enjeu essentiel. Le futur destin des rapports russo-américains ne les affecte plus comme dans le passé. Ils doivent agir en totale indépendance et constater leur potentiel géostratégique par leurs propres mérites et intérêts et non pas comme sous-traitants des grandes puissances. C'est seulement s'ils sont capables d'envisager une politique souveraine et indépendante qu'ils pourront élaborer leur action future.

Il est évident que les événements du Proche Orient et l'évolution des pays du monde arabe seront clefs pour leur agenda. Que cela soit en tant que pays voisins, c'est-à-dire en permettant d'accéder avec plus de rapidité et d'urgence aux éventuelles crises politiques et humanitaires ou en tant que plateforme logistique pour pouvoir même gérer ces crises.

Hormis le potentiel économique qui peut se développer grâce aux récentes découvertes d'hydrocarbure, tous les pays de la Méditerranée orientale doivent

aussi changer la façon d'envisager leurs politiques étrangères. Ce sont eux qui détiennent le rôle principal et qui doivent donc gérer les nouvelles richesses en pétrole et en gaz et non d'autres agents étrangers à la région.

Finalement, la Méditerranée orientale intègre de manière idéale la composition multiple de cette Méditerranée hétéroclite. Elle est ainsi composée de pays qui font partie de l'Union Européenne, de pays candidats comme ceux des Balkans et la Turquie, qui elle représentant la synthèse de toutes les sensibilités de la région: un pays à majorité musulmane mais qui peut et veut accepter et appliquer les critères de Copenhague, ce qui lui ouvrirait la porte de l'Europe. Et finalement une région qui inclut des pays arabes et Israël qui tôt ou tard devront décider par eux-mêmes de leur destin à vivre ensemble.

Le temps est venu que tous ces pays prennent leurs responsabilités et agissent en conséquence. Jusqu'à présent les grandes initiatives méditerranéennes ont vu le jour en Méditerranée occidentale. La France, l'Espagne, l'Italie ont chacune lancé leur propre initiative.

Aucune grande initiative méditerranéenne n'est sortie des ministères des affaires étrangères turc ou grec. Seulement l'Égypte a essayé de contrecarrer les propositions des pays de la Méditerranée occidentale (le 5+5) en créant le Forum Méditerranéen à Alexandrie.

Il est donc grand temps qu'un des pays du bassin oriental prenne le relais. Pourquoi pas le tour de la Grèce, de Chypre ou de la Turquie?

7. L'Europe est la solution

L'histoire nous a montré que cette région a vécu son âge d'or quand elle a eu la volonté et la capacité de décider par elle-même. Aujourd'hui la majorité des États de cette sous-région sont membres de l'Union Européenne. Celle-ci a été assez présente en ce qui concerne le développement économique et social mais, il faut le dire, peu active pour résoudre les différents contentieux. Que cela soit le cas de Chypre ou le conflit israélo-palestinien, toutes les grandes disputes qui ont conditionné le développement de cette zone ont été laissées sous la responsabilité des grandes puissances et surtout des États-Unis. Les changements qui se sont produits récemment montrent les limitations de l'hyperpuissance et réclament définitivement une nouvelle stratégie.

C'est ce nouveau sens de l'histoire qui doit être revendiqué et appliqué. Les

nouvelles personnalités politiques européennes doivent comprendre aussi cette nouvelle dimension de la Méditerranée orientale. Tout d'abord il faut donner la priorité à la résolution des deux conflits toujours présents.

L'unification de Chypre doit être une affaire européenne et non un dossier géré à l'ancienne, suivi, dirigé et manipulé par les anciennes métropoles. On ne comprend toujours pas la raison d'être des bases britanniques qui occupent 5% du territoire, pas plus qu'il soit impossible d'établir un système de sécurité collectif qui surpasse les contraintes de l'Otan et qui puisse mettre en pratique une nouvelle politique de défense et de sécurité européenne plus efficace qui garantisse la paix et la stabilité de toute la région.

L'établissement d'une paix durable au Proche Orient est aussi fondamental. Il s'agit d'un dossier urgent dont on doit s'occuper immédiatement. La reconnaissance de deux Etats, de la Palestine et d'Israël et l'établissement d'un processus d'intégration régionale économique selon le modèle de l'Union Européenne doivent être une action incontournable des européens.

Finalement l'Europe, à l'initiative des pays de la Méditerranée, doit proposer un grand espace de paix, de stabilité et de coopération régionale, similaire à celui de Helsinki établi en 1975. Nous devrions soumettre l'établissement d'une organisation de sécurité et de coopération pour toute la région. Israël, l'Iran et tous les pays arabes et européens devraient en faire partie ainsi que les Etats-Unis, la Russie, la Chine et le Japon.

Toutes ces idées peuvent servir pour réclamer que cette région méditerranéenne récupère son rôle principal et sa capacité à pouvoir redéfinir son propre futur. Tandis que le rôle de l'Union Européenne doit être celui d'accompagnateur et de guide dans cette nouvelle démarche.

Maintenant la seule chose qui reste est la volonté d'un ou de plusieurs pays de cette région de vouloir s'embarquer dans cette nouvelle navigation. Je ne crois pas que les Phéniciens, ni les Crétois, ni les Byzantins auraient eu un contexte plus facile que celui qui existe aujourd'hui.

Méditerranéens de l'orient, ramez fort, ramez vers un nouvel horizon de paix et de prospérité. Vous pouvez le faire.

NOTES

1. Hassani-Idrissi, Mostafa (dir.), *Méditerranée: une histoire à partager*, Marseille-Provence, Capitale Européenne de la Culture, Bayard éditions, 2013, p. 74.
2. Abulafia, David, *The Great Sea: A Human History of the Mediterranean*, Londres, Penguin Books, 2012.
3. Signé le 28 juin 1919 entre l'Allemagne et les Alliés à l'issue de la Première Guerre mondiale. Il annonce la création d'une société des Nations.
4. Signé le 24 juillet 1923, c'est le dernier traité résultant de la Première Guerre mondiale.
5. Macmillan, Margaret, *Peacemakers: The Paris Peace Conference of 1919 and Its Attempt to End War*, Londres, John Murray, 2001, p. 360.
6. Macmillan, *op. cit.*, p. 364.
7. Drevet, Jean-François, *Chypre en Europe*, Paris, L'Harmattan, 2000, p. 13.
8. À ce sujet lire O'Malley, Brendan et Craig, Ian, *The Cyprus Conspiracy: America, Espionage and the Turkish Invasion*, Londres-New York, I.B.Tauris, 2001.
9. À ce sujet voir l'article «Défendre Chypre» publié le 31 mars 2013 sur le site www.miguelangelmoratinos.com,
<<http://www.miguelangelmoratinos.com/index.php/fr/politique/europe/item/227-defendre-chypre>>

Poker géopolitique en Méditerranée orientale

Stephanos Constantinides*

ABSTRACT

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.

RÉSUMÉ

Stephanos Constantinides retrace méthodiquement les nombreux développements qui sont en train de prendre forme dans la Méditerranée orientale à la suite des changements radicaux qui ont eu lieu dans la région au cours des dernières années. Il met en lumière les récents événements tumultueux dans la région et plus particulièrement le «printemps arabe» qui a échoué et qui a contribué à defaire les plans prétentieux de la Turquie à devenir le leader néo-ottoman de la région. Les développements sur le front iranien, l’impasse israélo-palestinienne, l’autonomie kurde, l’effusion de sang en cours en Irak et en Syrie, les alliances changeantes dans la région et des grandes puissances politiques reçoivent la place qui leur revient dans l’analyse de Constantinides.

Il met en lumière avec brio les effets de tous ces événements reliés à Chypre et les dangers auxquels le pays est confronté, mais aussi les opportunités que ces évolutions peuvent créer pour l’île, dans sa tentative d’exploiter ses ressources énergétiques et de se libérer du joug de

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l'occupation turque. Les effets néfastes de ces événements sur la Turquie sont finement résumés et ce faisant, dans le processus, donnent un peu d'espoir à Chypre en ce qui concerne sa capacité à repousser l'agression turque, qui dernièrement a vu la marine de la Turquie envahir sa zone économique exclusive (ZEE), et à mettre un terme aux plans turcs à saborder ses efforts d'exploiter ses ressources naturelles.

Les équilibres géostratégiques en Méditerranée orientale, pour lesquels la problématique chypriote constitue une question centrale et déterminante, sont depuis un certain temps marqués par une nouvelle dynamique, celle des ressources naturelles. Chypre, Israël, la Grèce, l'Égypte et la Turquie dansent délicatement autour de la même table diplomatique. Tout se passe sur fond de l'échec du Printemps Arabe et de l'aggravation de la situation en Palestine, mais aussi à l'Irak et la Syrie avec l'apparition de l'ISIS, l'État islamique des jihadistes. Seule note positive le début de dégel du conflit de l'Occident avec l'Iran. Au même moment, la Turquie qui occupe illégalement la partie nord de Chypre depuis 1974, se permet de menacer la souveraineté de la République de Chypre sur ses ressources en hydrocarbures. Dans une zone stratégique complexe, la Turquie poursuit, dans le cadre d'un néo-ottomanisme, une politique étrangère agressive et expansionniste.¹

Dans les prochains mois sera joué un jeu géopolitique de poker difficile dans la Méditerranée orientale. Ankara semble déterminée à continuer de menacer Chypre par sa présence militaire dans sa zone économique exclusive. Dans la mesure où la politique extérieure d'Ankara a conduit la Turquie dans un isolement diplomatique, Tayyip Erndogan tente d'avoir un succès, en frappant sur le maillon faible qu'est Chypre. Il tente de monnayer sa participation à la guerre contre les jihadistes par des concessions à Chypre, persuadé que Washington pourrait favoriser une solution de la question chypriote aux dépens de la République de Chypre. Néanmoins l'alliance de Chypre et de la Grèce avec l'Égypte, apparaît comme un drapeau rouge pour Ankara, parce que le néo-ottomanisme est stoppé devant les portes du Caire. La relation si étroite que Nicosie a développé avec Israël cause aussi de la frustration et de la colère à Ankara. Cela dit, Ankara dispose toujours des moyens militaires afin de continuer à violer la souveraineté chypriote dans sa zone économique exclusive. Reste à savoir si Chypre est capable de contrer l'agression turque par les seuls moyens diplomatiques.

Cet article tente de cerner les grands enjeux géopolitiques dans cette région en pleine effervescence. La Turquie est au centre de toutes les préoccupations à cause de sa position géostratégique de premier plan. Son paysage politique intérieur est aussi un facteur qui influe sur sa politique extérieure. La politique néo-ottomane turque envers Chypre, pourrait se résumer ainsi, selon le premier ministre islamiste turc Ahmet Davoutoglou: «Chypre ne peut pas être ignorée par aucune puissance régionale ou mondiale qui fait des calculs stratégiques pour le Moyen Orient, la Méditerranée orientale, la mer Egée, le canal de Suez, la mer Rouge et le Golfe Persique. Chypre est à distance idéale de toutes ces régions, et tenant compte de ce paramètre, les affecte toutes directement. La Turquie ne doit pas utiliser l'avantage acquis à Chypre dans les années 70, dans le cadre d'une politique défensive chypriote, visant à préserver le statu quo actuel, mais comme un support fondamental d'une stratégie maritime agressive, de caractère diplomatique».²

Depuis l'occupation de la partie nord de Chypre, Ankara tente de préserver tous ses acquis et de les incorporer dans un projet de solution de la question chypriote, légalisant tout ce qui a été obtenu par la force. Le comportement actuel d'Ankara, avec l'invasion de la zone économique exclusive chypriote, va justement dans le sens de l'analyse stratégique d'Ahmet Davutoglu. Plus généralement, la politique des islamistes turcs vise – comme d'ailleurs était le cas de la politique kemaliste - à faire de la Turquie une grande force régionale, mais cette fois avec de visées «néo-ottomanes». Une stratégie néo-ottomaniste, viserait à recomposer une influence impériale pour la Turquie, dans un espace ottoman, rappelant l'Empire ottoman. Une relecture aussi de l'histoire va dans le sens de la réhabilitation de l'Empire ottoman. La doctrine de «profondeur stratégique» vise à faire de la Turquie une puissance régionale disposant de sa propre sphère d'influence, à la croisée de l'Europe, du Moyen-Orient et de l'Eurasie.

Il n'y a pas encore si longtemps Ahmet Davutoglu a voulu inaugurer la politique avec 'zero problèmes avec les voisins, pour son pays, partout, nationalement comme internationalement. Il visait à mettre en application sa doctrine de «profondeur stratégique» dans cet espace imaginaire ottoman. Dans le site du ministère des Affaires Etrangères de la Turquie on définit cette politique comme suit:

La politique de “zéro problème” avec nos voisins

Considérant que le développement et le progrès en termes réels ne peuvent être atteints qu'à travers la paix durable dans un environnement de stabilité, la Turquie place cet objectif au centre de sa vision de politique étrangère. Cette approche est la déduction de la maxime 'paix dans le pays, paix dans le monde' définie par le grand leader Attaturk, fondateur de la République de Turquie. En outre, il s'ensuit que cette approche est la conséquence naturelle d'une responsabilité contemporaine et d'une vision humaniste de politique étrangère.³

On remarque que la politique de “zéro problème” n’est pas une nouveauté, Mustafa Kemal évoquait déjà la devise “paix dans la patrie, paix dans le monde”. La différence est évidemment la vision neo-ottomane des Islamistes, contrairement à Kemal qui voulait couper court avec l’Empire ottoman.

Dans le cadre de cette politique Ankara a renoué les liens avec le Moyen Orient, après un demi siècle d’isolement. Les échanges économiques et commerciaux avec les pays arabes ainsi qu’ avec l’Iran ce sont multipliés, les restrictions des visas avec ses voisins ont été levées et la Turquie a même endossé le rôle de médiateur dans certains des conflits les plus difficiles de la région: Ankara a ainsi négocié la reprise du dialogue indirect entre la Syrie et Israël, la reprise des pourparlers entre le Pakistan et l’Afganistan et a même encouragé le dialogue entre Fatah et Hamas. En plus la Turquie a proposé ses bons offices pour servir de médiateur entre les Occidentaux et l’Iran sur la question nucléaire iranienne, ce qui permettrait à la Turquie d’être au cœur des négociations et donc de mesurer l’évolution des rapports de force avec Téhéran. Car la méfiance reste de mise avec l’Iran. Ankara est opposée au nucléaire iranien qui doterait Téhéran d’une supériorité militaire dans la région.

Mais cette politique neo-ottomane, non seulement n’ a pas fonctionné, mais s’est révélée un échec total, en partie parce que le statut quo dans la région a été brisé à cause des changements provoqués par le Printemps arabe. En plus, Tayyip Erdogan, dans son effort de se rapprocher du monde arabo-musulman, a brisé les relations amicales de la Turquie avec Israël. La détérioration des relations avec Israël a commencé à Davos en 2009, quand Tayyip Erdogan, alors premier ministre à l’époque, a attaqué de façon vitriolique Shimon Peres, le président israélien, critiquant la politique israélienne dans la bande de Gaza.

Les liens sont venus à un point de rupture, le 31 mai 2010, quand Israël a attaqué le navire 'Mavi Marmara', qui tentait de briser le blocus de Gaza, tuant neuf militants turcs.⁴

Le Printemps Arabe a secoué la politique étrangère turque en forçant Ankara de s'ingérer dans les affaires du monde arabe, provoquant des réactions des pays arabes qui n'avaient pas encore oublié le joug ottoman. Ankara a eu bien du mal à s'adapter à la nouvelle réalité et à se faire à l'idée que la région n'allait pas se plier à sa politique néo-ottomane. Ainsi en Lybie, avant de contribuer à la chute de Kadhafi, Ankara avait fait valoir qu'il n'était pas du ressort de l'Occident d'intervenir dans ce pays. En Syrie, elle a brisé son alliance stratégique avec Assad et a tenté de profiter de son renversement en soutenant les forces islamiques les plus extrémistes. Avec l'Égypte elle a tenté au début une alliance privilégiée et à mis sous sa protection le président islamiste Mohamed Morsi, provoquant ainsi la colère tant d'Israël que de l'Arabie Saoudite. Après le renversement de Morsi, Ankara a coupé les ponts avec l'Égypte et s'est lancée dans une guerre verbale contre les monarchies du Golfe pour leur refus de soutenir Morsi, tout en accusant Israël d'avoir collaboré au coup d'Etat qui l'a destitué.⁵ La diplomatie néo-ottomane a manifestement montré ses limites.

Au même moment l'union sacrée entre le parti de Tayyip Erdogan, le AKP, et le mouvement de Fethullah Gülen, une communauté religieuse puissante, a volé en éclats. Depuis 2002 l'AKP a joui du soutien massif de la communauté religieuse de Fethullah Gülen, un leader religieux influent qui s'est exilé aux Etats-Unis en raison des persécutions kemalistes, dont il partageait les mêmes objectifs: mettre fin à la domination kemaliste et mettre en place un pouvoir islamiste. Une fois l'armée et la bureaucratie étatique fidèles aux kemalistes écartées du pouvoir, les deux partenaires se sont trouvés face à face pour le contrôle des rouages de l'État. Les partisans de Gülen étaient soupçonnés de noyauter la police et la justice. Ils ont réussi dans l'affaire Ergenekon de faire condamner plusieurs généraux et museler l'armée. Mais les gülenistes ont commencé à se méfier d'Erdogan et à s'élever contre le remplacement de l'ancien système sécuritaire-militaire par un nouveau système autoritaire centré autour d'Erdogan. Le 17 décembre 2013 des procureurs et officiers de police proches de Gülen ont mené un coup contre les proches d'Erdogan accusé de corruption. C'était apparemment la réponse de Gülen à la décision d'Erdogan de fermer un vaste réseau de centres éducatifs qui constituent la

force économique et sociale du mouvement en Turquie. Quoiqu'il en soit, depuis les deux camps sont en guerre ouverte. Pour l'instant c'est Erdogan qui a gagné la première manche. Il sort néanmoins affaibli sur le plan éthique par toutes ces accusations de corruption, d'autant plus qu'à cause de son autoritarisme il a aussi perdu le soutien dont il jouissait de la part des intellectuels libéraux. Tout cela arrive à un moment où sur le plan international Ankara se sent isolée et fait face à une série de problèmes, même avec des régimes sunnites de la région.

Entre-temps les relations avec les Etats-Unis se sont aussi détériorées à cause de la réticence d'Ankara de s'engager dans la guerre contre les djihadistes de l'État islamique qui ont constitué leur propre État dans une partie de l'Irak et de la Syrie. En essayant de gagner les forces islamiques sunnites dans un rôle de protecteur, Erdogan s'est éloigné de l'Occident estimant qu'il était suffisamment renforcé sur la scène intérieure, pour pouvoir imposer ses conditions. Il avait en effet, avec le soutien de l'Occident, et en particulier de l'Europe, réussi à s'imposer à l'establishment militaro-kemaliste. Fort de sa victoire sur les militaires et la bureaucratie kemaliste, il tente de tirer profit de sa position géostratégique pour négocier sa participation à l'alliance contre les djihadistes. Il pense tirer profit dans un éventuel partage des ressources énergétiques chypriotes, avec le consentement américain, sachant que les Américains ont besoin de la Turquie dans la lutte contre l'État islamique, installé en Syrie et en Irak.⁶

Les Américains ne mettent plus en avant le «modèle turc» de démocratie, depuis la repression exercée par le régime islamiste d'Erdogan sur ses opposants, en particulier sur les manifestants du parc Gezi mais aussi contre les journalistes. Les grands journaux américains ont mis en évidence cette repression et les amis d'Ankara à Washington éprouvent de la difficulté à défendre le point de vue turc.⁷ En plus les câbles diplomatiques qui ont été dévoilés par WikiLeaks révèlent que les diplomates américains étaient sceptiques quant à la fiabilité de la Turquie comme partenaire. Les dirigeants d'Ankara sont dépeints dans ces câbles comme divisés et infiltrés par les islamistes. Les Américains sont également inquiets des visées néo-ottomanes des Islamistes. Le président Obama lui-même évite de communiquer directement avec Erdogan et c'est le vice-président Joe Biden qui s'est chargé dernièrement de cette mission. Signe de la détérioration des relations turco-

américaines, les Etats-Unies étaient représentées à un niveau politique inférieur à l'inauguration de la présidence d'Erdogan. Néanmoins ni Washington, ni Ankara n'ont intérêt à pousser à la rupture. Washington a besoin de la Turquie pour mener à bien la guerre contre l'Etat islamique et plus généralement dans son effort d'obtenir une certaine stabilité dans la région. De son côté Ankara ne peut pas espérer réaliser ses ambitions de devenir une puissance régionale sans le soutien direct ou tacite des Américains. D'ailleurs la politique étrangère turque oscille toujours entre un Occident dont elle a un besoin vital (la Turquie est membre de l'Otan, membre fondateur du Conseil de l'Europe, candidate à l'Union européenne, ses membres sont ses premiers partenaires économiques, etc.) et le Proche-Orient, d'abord et avant tout perçu comme « musulman » et comme héritage ottoman. Un analyste américain de premier plan, Richard Haass, president of the Council on Foreign Relations (CFR) a mis les choses au clair, en déclarant: "We are technically and legally still allies, but strategically we are not on the same page. We've got real differences in how we assess the situation and what should be done". Et plus loin: Haass a ajouté que: "Kurds today were the U.S.'s primary partner in Iraq and Syria".⁸

Face au monde arabe, les derniers développements sont très négatifs pour la Turquie. Comme le notait un journaliste turc "The perception of Turkey among Arab nations has taken a dramatic turn for the worse because of the harsh diatribes and meddling policies adopted by shortsighted Turkish leaders. This has in turn started to take a toll on political relations, with subsequent adverse impacts on the Turkish economy and a decision by the 22-member Arab League to revisit its ties with Turkey". Et plus loin, "To the detriment of Turkey's national interests, Erdoğan and his allies in the government, including Prime Minister Ahmet Davutoğlu, have succeeded in turning both Saudi Arabia and Egypt, two powerhouses in the Arab League, into a united enemy that is determined to thwart Turkish overtures not only in the Arab and Muslim world but also in global politics. The last casualty of this sad picture is the decisive defeat Turkey experienced in the race to secure a seat on the United Nations Security Council as a non-permanent member, for which it was only able to secure 60 votes, as opposed to 150 five years ago".⁹

Il est évident que l'arrogance d'Erdogan ne peut pas cacher les faiblesses de la Turquie dans le contexte géopolitique actuel au Proche Orient. Les trois plus grands problèmes auxquels fait face la Turquie à l'heure actuelle sont les Kurdes,

la Syrie et l'économie. Le problème Kurde devient plus complexe avec l'importance stratégique que les Occidentaux accordent au facteur kurde pour la stabilité de la région. En fait les Kurdes tant en Iraq qu'en Syrie sont devenus une pièce maîtresse pour la lutte contre l'extrémisme islamiste. La Turquie ne voit pas d'un bon œil cette évolution craignant que la création en plus d'une région autonome kurde en Syrie éveillerait les tendances indépendantistes ou autonomistes des Kurdes turcs. D'autant plus que le processus de paix qui a commencé il y a deux ans avec les négociations entre le gouvernement turc et Ocalan pour les droits des Kurdes de la Turquie piétinent ce dernier temps et ne conduisent nulle part.¹⁰

Pour la première fois depuis le début de la «question d'Orient», les Kurdes de la région, du moins ceux d'Irak et de Syrie, peuvent nourrir l'espoir d'un État kurde indépendant. Or, depuis près de cinq ans, la Turquie est en négociation avec ses propres Kurdes et voit d'un mauvais œil le renforcement des éléments armés kurdes à ses frontières.

Pour ce qui est de la Syrie l'objectif majeur d'Ankara de faire renverser Assad est tombé à l'eau pour l'instant non seulement à cause du soutien ferme que ce dernier reçoit de la Russie et de l'Iran, mais aussi parce que ni les Américains, ni Israël ne voudraient dorénavant le voir partir à cause de la menace islamiste qui plane sur la région.

Quant à l'économie turque, tant glorifiée pour quelque temps, elle ne va pas si bien et est plus vulnérable que jamais, certains analystes estiment d'ailleurs que son effondrement est une question de temps.

Parmi les autres acteurs protagonistes dans la région il faudrait évidemment signaler Israël, l'Iran, l'Égypte, la Grèce et Chypre. Israël est la puissance militaire la plus importante de la région, dotée de l'arme nucléaire, capable de se mesurer à la Turquie. Depuis la rupture de son alliance avec Ankara Israël tente de se rapprocher de certains pays arabes, plus particulièrement de l'Égypte après le renversement des Frères Musulmans et aussi de la Grèce et Chypre. Les relations difficiles du premier ministre israélien Netaniahou avec le président Obama est un élément important qu'il faut prendre en considération dans l'analyse de l'équilibre des forces en présence dans la région. C'est surtout un irritant pour les Américains dans leurs efforts de rapprochement avec l'Iran et dans tout effort de solution du problème palestinien. Néanmoins Netaniahou s'est plié à la volonté américaine de rapprochement avec l'Iran et on ne le voit

plus répéter ses menaces envers Teheran. Le rapprochement avec la Grèce et Chypre permet à Israël d'obtenir cette profondeur d'espace dont il a besoin pour ses forces militaires et en particulier pour son aviation. Cela remplace évidemment ce qu'il a perdu à cause de sa rupture avec Ankara. Néanmoins il est évident que Tel Aviv n'a pas abandonné l'espoir de rétablir un jour des relations amicales avec Ankara. D'ailleurs le commerce entre les deux pays est toujours au beau fixe et des compagnies israéliennes et turques discutent toujours des projets de coopération énergétiques.¹¹

Certes même si les relations turco-israéliennes se rétablissent, elles ne seront plus jamais aussi confiantes et étroites que par le passé. Il y aura toujours une méfiance de deux côtés et le poids de l'islamisme en Turquie y pesera lourdement. Dans cette optique les relations avec la Grèce et Chypre ne seront sans doute pas sous évaluées, mais néanmoins elles vont évoluer dans un contexte différent de la situation actuelle.

Signalons aussi, qu'on assiste à une entente discrète entre la Russie et Israël. Dans le *Monde Diplomatique* de septembre 2014, Igor Delanoë notait sur cet aspect des relations russo-israéliennes: 'Lors de la réunion de l'Assemblée générale de l'Organisation des Nations unies (ONU) du 27 mars 2014, destinée à condamner l'annexion de la Crimée par Moscou, le représentant israélien a brillé par son absence. Au grand dam des Etats-Unis, Tel-Aviv s'est abstenu de voter une résolution appelant à ne pas reconnaître le rattachement de la péninsule à la Fédération de Russie. Cet épisode est venu confirmer la complexité des relations israélo-russes. Car, en dépit de leurs divergences sur le dossier syrien et de leurs différends toujours aussi fondamentaux sur le nucléaire iranien, Israël et la Russie entretiennent un dialogue constructif'.¹²

L'Iran est appelé à jouer un rôle déterminant pour l'équilibre futur des forces en présence dans la région si son rapprochement avec l'Occident est mené en bons termes. L'Iran shiite pourrait constituer un allié privilégié contre l'islamisme sunnite, contre l'état islamique qui menace tant les Occidentaux que la Syrie et l'Irak allié privilégié de Teheran. Un tel axe pourrait aussi diminuer, en partie, l'importance stratégique de la Turquie. D'autant plus qu'Ankara se trouverait coincée entre l'Iran shiite et l'Egypte sunnite. Assisterons-nous à une nouvelle rivalité stratégique au Moyen-Orient entre l'Iran et la Turquie? Tous les ingrédients sont réunis pour une telle évolution.

L'Egypte fait face à des problèmes économiques et sociaux graves et le

renversement des Frères Musulmans, premier parti élu démocratiquement au pouvoir, n'améliore pas son image internationale. Néanmoins les Américains qui ont tenté une alliance avec les Frères Musulmans et qui n'ont pas vu d'un bon œil leur renversement, ne peuvent pas se passer de cette Égypte sous tutelle militaire. Il s'agit d'un allié précieux dans le contexte actuel de lutte contre l'extrémisme islamique. Son rapprochement avec la Grèce et Chypre brise son isolement international et lui ouvre une porte vers l'Union Européenne. En plus une coopération énergétique lui sera bénéfique sur le plan économique. Enfin, malgré ses faiblesses, l'Égypte reste le leader du monde arabe et avec une influence prépondérante au sein du monde musulman. Dans ce sens on comprend la rage d'Erdogan de perdre un allié aussi précieux après le renversement des Frères Musulmans par le maréchal Sissi.

Chypre 'détient une position privilégiée dans l'Est-méditerranéen, à l'arrière du golfe Arabo-Persique et de l'isthme de Suez'.¹³ Malgré son importance stratégique capitale dans cette région en effervescence, Chypre est en position de faiblesse à cause évidemment de l'occupation de sa partie nord par la Turquie mais aussi à cause de l'effondrement de son économie. Néanmoins son rapprochement avec Israël pourrait constituer un obstacle aux menaces répétées d'Ankara. Le rapprochement avec Israël se complète sur le plan diplomatique par les bonnes relations établies avec l'Égypte. Il faut dire que les relations traditionnellement amicales entre les deux pays étaient menacées après l'arrivée au pouvoir des Frères Musulmans. Sous l'influence de la Turquie le président égyptien Mohamed Morsi avait amorcé le processus de désavouer l'entente qui délimitait la zone économique exclusive entre les deux pays. La rencontre tripartite au Caire le 8 novembre 2014 entre l'Égypte, Chypre et la Grèce pourrait être considérée comme un succès diplomatique important pour Chypre. D'autant plus qu'un grand pays arabe et musulman se place désormais du côté chypriote contre l'expansionisme turc. Reste que Chypre doit construire d'autres alliances pour faire face à la menace perpétuelle turque. A Nicosie on comprend maintenant que le fait de s'allier en priorité avec les États-Unis et Londres ne constitue pas un parapluie de protection des menaces turques. Ainsi Chypre tente de renouveler les relations avec Moscou qui a toujours soutenu cette dernière, surtout à des moments difficiles, au sein du Conseil de Sécurité de l'ONU. Il est aussi de notoriété publique que Chypre n'a pas réussi à exploiter en sa faveur sa présence au sein de l'Union

Européenne. En particulier elle a mal utilisé son pouvoir institutionnel pour obtenir un traitement différent de la Turquie de la part de Bruxelles qui la forcerait de reconnaître la République de Chypre et de cesser ses menaces envers elle. Cependant l’allié qui pourrait donner une assurance et une protection immédiate à Chypre ne serait autre qu’Israël. Néanmoins, comme le montre dans son article dans ce numéro d’*Études helléniques/Hellenic Studies* le professeur George Georgiou, il s’agit d’une relation problématique, as “partnerships between disparate parties are never easy and the potentially mutual beneficial energy relationship between Cyprus and Israel is a case in point” Néanmoins il l’a bien souligné “*this might no longer be a matter of choice for Cyprus but of national and economic necessity given its weak political position and considering that all hope for reviving its economy now appears to lie with future development of its potential oil and natural gas resources*”...¹⁴

La Grèce, en partie à cause de l’effondrement de son économie, s’est trouvée éloignée de la Méditerranée orientale et plus largement du Proche Orient, laissant carte blanche à la Turquie dans ses efforts d’assurer une présence exclusive dans la région. Pourtant la Grèce avait des intérêts considérables en Méditerranée orientale et des liens historiques avec la plupart des pays du Proche Orient. C’est durant la période dite ‘tis metapolitefsis’ (la période après la chute de la dictature en 1974) que la Grèce s’est éloignée du Proche Orient pour s’orienter résolument vers l’Europe. Néanmoins les leaders historiques grecs Constantin Caramanlis et Andreas Papandreou ont continué de cultiver des relations étroites avec les pays de la région. La rupture est survenue avec Costas Simitis, un premier ministre grec qui a centré la politique grecque sur l’Europe et a coupé le pays de son berceau historique proche oriental. A l’heure actuelle Athènes fait un effort de retour dans ce berceau en développant des relations étroites avec Israël et l’Égypte. C’est dans ce contexte, et profitant de la crise que la Turquie a provoqué dans la zone d’exclusivité économique chypriote qu’Athènes a participé à la rencontre tripartite du Caire du 8 Novembre 2014. Il faut reconnaître cependant à Costas Caramanlis son effort de se rapprocher de Moscou durant les années qu’il était premier ministre (2004-2009). Néanmoins ces efforts ont été sabotés tant à l’intérieur de son cabinet, en particulier par sa ministre des affaires étrangères Dora Bakoyannis, ainsi que par des élites grecques pro-américaines. Les Américains aussi n’ont jamais vu d’un bon œil un rapprochement entre la Grèce et la Russie et ont tout fait pour

limiter les approvisionnements russes en gaz au pays. Il est évident que dans le contexte actuel de dépendance financière d'Athènes de Bruxelles et plus particulièrement de Berlin, la marge de manoeuvre en politique étrangère restent limitée. Il faudrait aussi souligner que tous les gouvernements grecs ont fait des efforts immenses pour se rapprocher de la Turquie en lui ouvrant la porte de l'Europe, malgré l'occupation d'une partie du territoire chypriote et malgré les provocations régulières d'Ankara en mer Egée.

Parlant de la Méditerranée orientale et plus largement du Proche Orient il faut souligner le retour en force de Moscou dans cette région après une éclipse de plusieurs années avec la fin de l'Empire soviétique.¹⁵ Moscou a soutenu fortement le régime Assad, un allié privilégié dans la région, d'autant plus qu'il dispose d'une base navale dans le nord de la Syrie, à Tartous. Mais Moscou a développé aussi des relations commerciales et diplomatiques étroites avec la plupart des pays de la région, y compris la Turquie, l'Égypte et Israël. Son retour en Égypte par la vente de missiles S-300 est spectaculaire. La Russie a apporté aussi un soutien sans faille à Teheran pendant toute cette période de pressions que ce pays recevait de la part de l'Occident. Signalons enfin le lien étroit que Moscou a développé avec Chypre sur le plan politique, économique et culturel. D'ailleurs c'est en partie pour punir les Russes, très présents avec leurs capitaux dans l'île que les Européens ont détruit pratiquement le système bancaire chypriote. Le présent gouvernement chypriote, très pro-occidental est forcé actuellement de faire un détour vers Moscou dans son effort de contenir les menaces turques. Néanmoins il ne faudrait pas sous estimer les intérêts russes en Turquie, en particulier les échanges commerciaux d'une ampleur considérable.

A part les États-Unis qui tentent de dominer cette région depuis la fin de la deuxième guerre mondiale, l'influence des autres pays occidentaux dans la région a diminué considérablement. Certes les Britanniques par l'utilisation de leurs bases militaires à Chypre exercent encore une certaine influence mais en pratique ils constituent un appui aux Américains. La France a gardé des relations particulières avec le Liban et les pays du Magreb, mais son influence dans la région est aussi limitée.

Reste la Chine qui évidemment ne néglige pas cette région en particulier pour ses ressources énergétiques. Pékin a soutenu aussi Téhéran dans son conflit avec l'Occident et est devenu un des principaux acheteurs de son

petrole. Pour le reste la Chine a développé des relations commerciales et diplomatiques avec la plupart des pays de la région mais son influence politique reste aussi limitée. De façon générale Pekin a apporté un soutien à Nicosie au sein du Conseil de Sécurité de l'ONU chaque fois qu'il était question de décisions à prendre pour orienter le mandat du secrétaire général de l'organisation comme médiateur de la question chypriote.

Si on résumait la situation actuelle en Méditerranée orientale et dans la région plus large du Proche Orient, on pourrait signaler que c'est un moment crucial de redéfinition des alliances et de l'équilibre des forces en présence. Washington tout d'abord tente de reorienter sa politique dans la région avec son effort de rapprochement avec Téhéran, ce qui pourrait redistribuer les cartes de façon décisive. Les Américains ont fait cela contre la volonté de deux de leurs alliés traditionnels dans la région, l'Arabie Saoudite et surtout Israël. Ils l'ont fait aussi contre la volonté turque, bien qu'Ankara soit beaucoup plus discrète dans son opposition en raison de ses relations commerciales étroites avec Teheran. Il faut dire que la réapparition de l'Iran de façon active sur la scène proche-orientale et surtout dans le cadre d'une alliance explicite ou tacite avec l'Occident va limiter l'influence turque. L'Iran deviendra la puissance régionale la plus importante de la région et coupera beaucoup des ambitions d'Ankara. Ceci dit il ne faudrait pas non plus sous-évaluer la capacité de la Turquie qui va rester un pays avec qui il faudra traiter pour les problèmes de la région. Une des questions majeures qui restent pour l'instant sans réponse est le problème kurde. Ce peuple réussira-t-il dans le contexte actuel à créer son propre État national? Les signes qui pointent dans cette direction sont bons mais il ne faudrait pas négliger l'opposition ferme à une telle évolution pratiquement de tous les pays de la région, y compris l'Iran et la Turquie. La question palestinienne reste aussi préoccupante, en particulier tant et aussi longtemps que Netanyahu et la droite détiennent le pouvoir en Israël. La pression internationale sur Israël par la reconnaissance par plus de 100 pays d'un État palestinien finira-t-elle par forcer la main à Israël à négocier dans cette direction? La réponse sans doute se trouve plutôt à Washington qui apporte un soutien inconditionnel à Israël. Pour le reste le monde arabe est déchiré. La politique américaine en Irak s'est avérée un échec total tandis qu'en Syrie le conflit s'éternise. En Lybie l'État a pratiquement cessé d'exister après l'intervention occidentale et le renversement de Kadhafi. Seule oasis dans le

pavé du printemps arabe reste la Tunisie où malgré les difficultés économiques, politiques et sociales l'alternance démocratique semble s'enraciner. En effet, aux dernières élections les islamistes ont reconnu leur défaite et ont quitté le pouvoir. Il s'agit évidemment des islamistes modérés qui n'ont rien à voir avec l'État islamique installé en Irak et en Syrie et qui est devenu l'ennemi numéro un de l'Occident.

En conclusion les cartes se redistribuent dans la région, les sources énergétiques deviennent un enjeu majeur mais toute prévision sur la nouvelle carte qui résultera de toute cette effervescence militaire et diplomatique est difficile à prévoir.

NOTES

1. Sur la politique étrangère turque voir entre autres, Stephanos Constantinides, *The Emergence of a New Ottoman Model: A new Foreign Policy in Turkey*, in *The New Balkans: Disintegration and Reconstruction*, edited by George A. Kourvetaris and alias, Northern Illinois University, New York, East European Monographs, Boulder, 2002. (ISBN 0880334983), Stephanos Constantinides, «Turkey: The Emergence of a New Foreign Policy; The Neo-Ottoman Model», *Journal of Political and Military Sociology*, Winter, 1996 (Northern Illinois).

L'auteur fut un de premiers à parler de politique néo-ottomane turque, dès 1996, faisant le lien de la période d'Atan Menderes (1950-1960) à l'époque de Turgut Ozal (1987-1993). Ce dernier peut être considéré comme le véritable initiateur du néo-ottomanisme en Turquie, plus modéré que celui de Necmetin Erbakan, avant lui. Néanmoins, il a fallu attendre l'arrivée au pouvoir de l'AKP pour que le concept de néo-ottomanisme devienne monnaie courante dans les analyses de la politique étrangère turque.

2. Exposé dans son livre *Stratejik Derinlik. Türkiye'nin Uluslararası Konumu* (Profondeur stratégique), où il exprime aussi la politique impériale neo-ottomane turque. Ainsi il considère que dans la région post-ottomane, des Balkans au Proche-Orient, la Turquie a non seulement un devoir d'intervenir en tant que leader mais de surcroît a un «droit naturel» de le faire en tant qu'ancienne puissance impériale.

Voir aussi, Ahmet Davutoglu, *La Profondeur Stratégique* (éd. grecque), Athènes, Éditions Poiotita, 2009, p. 275, où il avoue que «même s'il n'y avait aucun Turc dans l'île, la Turquie devait avoir un intérêt pour Chypre», justement à cause de son importance stratégique. Ce qui fait tomber l'argument de protection de la communauté turque Chypriote.

3. www.mfa.gov.tr/la-politique-de-zero-probleme-avec-nos-voisins.fr.mfa
4. Voir, «Mavi-Marmara», “l’affaire qui a consommé la rupture entre Israël et la Turquie”
Le Monde.fr avec AFP | 27.05.2014
5. Voir, “Le soutien de la Turquie à Morsi irrite le nouveau pouvoir...”
www.lefigaro.fr/.../01003-20130717ARTFIG00445-le-soutien-de-la-tur..
6. C’est l’analyse qu’on fait au moins à Nicosie, voir les craintes même des Chypriotes, d’être forcés par les Américains à des concessions à Ankara.
7. Voir, Omer Taspinar, “New Turkey unveiled by the Washington Post and New York Times”, in *Today’s Zaman*, November 02, 2014.
8. Verda Özer, “Kurds are the primary US partner in Iraq and Syria”, *Hurriyet Daily News*, November 15, 2014.
9. Abdullah Bozkurt, “Turkey loses Arab world, *Today’s Zaman*”, November 14, 2014.
10. Samim Akgönül, “La Turquie désorientée”, *Orient XXI*, Magazine, 9 octobre 2014.
11. Développement du commerce entre Israël et la Turquie
www.actuj.com/.../israel/developpement-du-commerce-entre-israel-et-la-t
On note ainsi qu’ “Alors que les relations politiques entre Jérusalem et Ankara – détériorées depuis 4 ans à la suite de l’arraisonnement du Navi Marmara, vaisseau amiral de la flottille qui tentait de forcer le blocus de Gaza – restent tendues et que la réconciliation annoncée depuis plusieurs mois tarde à venir, le commerce israélo-turc se porte mieux que jamais et devrait battre de nouveaux records en 2014.
Les échanges entre les deux pays avaient déjà atteint en 2013 un niveau sans précédent avec un volume total de 4,85 milliards de dollars, soit une hausse de 39% par rapport à 2012. Les exportations israéliennes vers la Turquie avaient progressé de 76% et les importations en provenance de cet Etat de 13%.
Ces échanges ont continué de se développer depuis le début de 2014. Au cours du premier tiers de l’année – de janvier à avril – les exportations israéliennes vers la Turquie ont atteint 949,5 millions de dollars (25% de plus que durant la même période de 2013 où elles s’étaient chiffrées à 761 millions de dollars) tandis que les importations en provenance de Turquie se chiffraient à 956 millions de dollars (21% de plus que les 791 millions de dollars de l’an dernier) ”.
Sur l’économie turque voir aussi, EMRE DELİVELİ, Lies, dictatorships and statistics, *Hurriyet Daily News*, October/27/2014, et Six puzzles of the Turkish economy, *Hurriyet Daily News*, November/14/2014. Aussi une analyse grecque, Kostas Raptis, L’heure de vérité pour l’économie turque *Capital*. Gr Septembre 25, 2014.
12. Igor Delanoë, “Le grand jeu des alliances, Entre Moscou et Tel-Aviv, une étrange lune de miel”, *Le Monde Diplomatique*, septembre 2014.

13. Comme on l'a écrit, 'l'un des enjeux majeurs du bassin méditerranéen dépend de sa «ceinture Nord» et plus exactement, de son verrou oriental. Celui-ci est protégé par la complémentarité géostratégique de la Grèce, de la Turquie et de Chypre, ainsi que par la position charnière de l'Iran qui prolonge le territoire turc. S'agissant plus précisément de l'île chypriote, elle détient une position privilégiée dans l'Est-méditerranéen, à l'arrière du golfe Arabo-Persique et du canal de Suez. Chypre est en effet située à proximité des zones de tensions proche-orientales et de ce fait, accueille un dispositif de défense et de surveillance qui couvre la façade levantine. Cette île géographiquement excentrée ne cesse de constituer, depuis la Guerre froide, la couverture stratégique d'Israël, dans la mesure où elle détermine une ouverture terrestre et un relais maritime potentiels pour le territoire israélien. De plus, Nicosie partage des valeurs occidentales non antagonistes avec Tel-Aviv. L'espace chypriote est donc susceptible de constituer un accès à la mer pour les forces israéliennes, dont le territoire ne bénéficie pas d'une profondeur stratégique suffisante. Chypre est également positionnée sur le principal axe de défense méridional turc, ce qui peut déterminer un danger éventuel et immédiat pour la Turquie en cas de conflit. Dans le même temps, le territoire chypriote conjugue des caractéristiques géostratégiques opportunes pour la Russie, qui tente de se rapprocher des États méditerranéens afin de contrebalancer l'influence des États-Unis dans la région. Chypre n'est distante que de 75 km des côtes turques, elle est encadrée par la façade levantine à l'Est et au Sud, se situe non loin du canal de Suez et à proximité de la base militaire russe de Tartous sur le littoral syrien, et de surcroît, occupe une position géographique charnière particulièrement stratégique à l'extrémité du bassin oriental de la Méditerranée. En cela, le territoire chypriote demeure un enjeu important de la stratégie américaine et russe, relative à la région'. Fotini Katy MIRANTE-PSALTAKIS, in Stephanos Constantinides, Thalia Tassou, Christos Iacovou, *Études Helléniques - Hellenic Studies*: "La République de Chypre: 50 ans après - The Republic of Cyprus: 50 Years After", Vol.19, No 2, 2011).
14. George Georgiou, *Cyprus and Israel: A Precarious Energy Partnership*, dans ce volume.
15. Jacques Lévesque, «La Russie est de retour sur la scène internationale», *Le Monde Diplomatique*, novembre 2013, Voir aussi, Russie, le retour «Manière de voir» n° 138 – Décembre 2014 - janvier 2015.

Chronologies

Chypre: 1er mai – 31 octobre 2014

21-23 mai: Visite à Chypre du Vice-Président des Etats unis, Joe Biden qui soutient la relance des négociations intercommunautaires pour une solution de la question chypriote.

25 mai: Elections au Parlement européen (6 sièges à pourvoir): 43, 97% de votants (59,40% en 2009). Le parti de droite Disy obtient 37,75% des voix et 2 sièges. Le parti de la gauche communiste Akel remporte aussi 2 sièges avec 26,98% des suffrages. Le parti du centre Diko (10,83%) et le parti socialiste Edek (7,68%) obtiennent chacun un siège.

2 juin: La Commission européenne attribue une aide de 575 000 euros pour 10 écoles de la zone occupée. Depuis 2008 une aide de 3 millions d'euros a été accordée à 67 écoles de cette zone.

3 juin: Selon Eurostat le chômage a été à Chypre de 16,4% en avril (16,9% en mars).

24 juillet: Rencontre du président de la République Nicos Anastasiades et du président de la Communauté chypriote turque Dervis Eroglu, qui n'a pas permis de trouver un accord ni sur la procédure à suivre pour les négociations intercommunautaires ni sur les mesures de confiance à prendre pour chacune des deux parties au cours de ces négociations.

3 août: Le président N.Anastasiades déclare au journal grec Vima tis Kyriakis: "La solution du problème chypriote sera un compromis et ne doit pas laisser le sentiment qu'il y a un vainqueur et des vaincus".

Un Chypriote turc, Erai Ozer, déclare à Politis être prêt à restituer à leur propriétaire chypriote grec des terres qui lui avaient été accordées par l'administration de la zone occupée.

6 septembre: Le Parlement chypriote adopte à la demande de la Troïka une loi autorisant la saisie de biens immobiliers à des personnes ne pouvant plus payer leurs dettes afin de permettre l'octroi au gouvernement de Nicosie d'une nouvelle tranche d'aide de 436 millions d'euros. Le président N. Anastasiades renvoie cette loi au Parlement pour un nouvel examen considérant que

plusieurs amendements à cette loi votés par les députés sont contraires à la Constitution.

10 septembre: L'ancien Porte Parole du Gouvernement Christos Stylianidés est désigné Commissaire européen chargé d'Internet et de la Culture.

1er septembre: Visite en zone occupée de Chypre du nouveau président de la République de Turquie R. Erdogan, qui déclare que la solution de la question chypriote est une solution à 2 Etats. Une dizaine de manifestants contre la venue du président turc ont brandi des pancartes «M.Ergogan vous n'êtes pas le bienvenu».

16 septembre: Visite en zone occupée de Chypre du nouveau Premier ministre turc Ahmed Davutoglu.

25 septembre: Le ministère de la Défense lance une opération de sauvetage qui a permis de secourir 300 réfugiés syriens ayant envoyé des signaux de détresse d'un bateau au large de Paphos.

7 octobre: Manoeuvres communes de Chypre et des Etats Unis de sauvetage au sud des côtes chypriotes.

Le président Anastasiades suspend les négociations inter - communautaires à la suite des constantes incursions de bateaux turcs dans la zone économique exclusive de Chypre.

23 octobre: Hospitalisation à Bruxelles du président Anastasiades venu assister au Conseil européen.

29 octobre: Rencontre à Nicosie des ministres des Affaires étrangères de Chypre, de Grèce et d'Egypte pour préparer la réunion au Caire du 8 novembre des présidents Sissi et Anastasiades ainsi que du Premier ministre Samaras relative à la délimitation des zones économiques exclusives de ces trois pays.

31 octobre: La Cour suprême de Chypre a jugé inconstitutionnels les quatre amendements à la loi sur les saisies immobilières, ouvrant ainsi la voie au versement de l'aide internationale de 436 millions d'euros.

Grèce: 1er mai- 31 octobre 2014

8 mai: le Premier ministre Antonis Samaras présente ses propositions de révision de la Constitution: Election au suffrage universel du Président de la République aux pouvoirs renforcés et diminution du nombre de députés.

25 mai: Elections au Parlement européen (21 sièges à pourvoir): 59,96% de votants (52,63% en 2009). Syriza, le parti de la gauche radicale, arrive en tête avec 26,57% des voix (6 sièges). Suivent le parti de droite la Nouvelle Démocratie (22,72% et 5 sièges), le parti néo-nazi, Aube Dorée (9,39% et 3 sièges), l'Olivier, coalition dirigée par le parti socialiste Pasok, (8,02% et 2 sièges), le parti de centre gauche, La Rivière (6,60% 2 sièges), le parti communiste KKE (6,11% et 2 sièges), le parti de droite, Grecs indépendants (3,46% et 1 siège).

9 juin: Remaniement ministériel: L'économiste Guikas Hardouvelis devient ministre des Finances à la place de Ioannis Stournaras et le député non inscrit (ex Pasok) Andréas Loverdos est nommé ministre de l'Education.

12 juin: Le ministre délégué aux Finances, Christos Staikouras annonce un excédent primaire budgétaire - en faisant abstraction du remboursement de la dette souveraine - de 711 millions d'euros sur les 5 premiers mois de 2014 au lieu d'un déficit de de 970 millions d'euros sur la même période de 2013.

15 juin: 10^{ème} édition à Athènes de la Gay Pride. Une dizaine de milliers de personnes défilent en présence de Georges Kaminis, le maire de la capitale.

6 juillet: Selon le journal britannique *The Guardian* le gouvernement grec, comme des gouvernements d'autres pays, a fait l'objet d'opérations de surveillances des services de la NSA américaine.

12 août: A.Samaras déclare depuis le tumulus Kasta sur le site antique d'Amphipolis dans la région de Macédoine où a été découvert un monument composé d'une enceinte de 497m formant un cercle parfait construit en marbre provenant de l'île de Thassos: «Il est évident que nous nous trouvons devant une trouvaille d'une exceptionnelle importance». Incertitude sur le squelette trouvé dans le tombeau découvert. Il pourrait s'agir de la sépulture d'un général macédonien.

6 septembre: Le Premier ministre Samaras déclare à Thessalonique que la Grèce est sortie de la crise après 6 ans de récession.

9 septembre: Adoption d'une loi contre le racisme, l'antisémitisme, l'incitation à la haine qui prévoit une peine de 3 ans de prison contre 2 précédemment. Une peine identique punira désormais la négation ou l'apologie de l'Holocauste, des génocides et des crimes contre l'humanité.

10 septembre: L'ancien ministre des Affaires étrangères Dimitri Avramopoulos

est désigné Commissaire européen chargé de la Migration, des Droits et des Affaires intérieures.

10 octobre: Selon ELSTAT (Institut de statistiques de Grèce) le PIB a baissé en 2013 de 3,3% et non pas de 3,9% comme prévu. Le ministre des Finances G.Hardouvelis indique que la reprise économique sera effective au 3ème trimestre de 2014 après 6 ans de récession (prévision d'une expansion de 2,9% en 2015 et de 4,7% en 2016).

Vote de confiance au gouvernement Samaras par 155 voix contre 131 et 12 députés absents dont 8 députés du parti néo-nazi Aube Dorée en prison.

23 octobre: Un sondage publié par l'hebdomadaire Pontiki prévoit une avance de 5% du parti Syriza sur la Nouvelle Démocratie en cas d'élections législatives: Syriza (27%), Nouvelle Démocratie (22%), Aube Dorée (7%), Pasok (6,5%), La Rivière (6%), KKE (5%).

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