

A Divided Island Coping With the Financial Crisis

Highlights

- ★ Both politically and economically, Cyprus retains mixed feelings toward the benefits of its EU membership. The country remains divided in two parts despite the “European solution”, which should have solved the situation. The economic crisis has also left a bitter taste in the mouths of Cypriots, especially considering the events that led to the bail-in programme. Overall, the experience has disillusioned the population.
- ★ Three facts and beliefs explain why the younger generation does not feel a strong attachment to the EU: the distance from Brussels and mainland Europe; a perception of disappointment with the EU; a failure to communicate the EU adequately.
- ★ Cyprus remains committed to further integration, however, a better Europe does not necessarily mean more, but rather greater cooperation among Member States. On a related note, the EU needs to better appreciate the fact that its member states are not all similar. Small countries, in particular, have fewer resources available to cope with specific policies.

Building Bridges project

This paper is part of the Building Bridges Paper Series. The series looks at how the Member States perceive the EU and what they expect from it. It is composed of 28 contributions, one from each Member State. The publications aim to be both analytical and educational in order to be available to a wider public. All the contributions and the full volume *The European Union in The Fog* are available [here](#).



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About Building Bridges

Called “Building Bridges Between National Perspectives on the European Union”, the project aims to stimulate the public debate around national experts on the relationship between their Member State and the EU and on the future of the Union. This project confronts their visions with others’ from different member states, but also those of people from different horizons via workshops in Warsaw, Madrid, Paris and Brussels, which took place in 2015 gathering experts and local citizens.

The project is coordinated by the French Institute of International Relations (Ifri) with three major partners: the Polish Institute of International Affairs (PISM), Real Instituto Elcano and EUROPEUM—European Institute for European Policy. The project has also benefited from the support of institutes in each Member State.

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What does your country hope to gain from its membership to the European Union?

The European project is considered a success story that brought peace and economic growth across the European Continent. The reality is that over the years the project lost its momentum. On the one hand lies examples of economic deterioration along with a number of social problems; and on the other, the lack of political will to further enhance the political unification of the Union. Despite the voices of disapproval, member states appear to support the European project but are reluctant - more than ever before - to "surrender" their national powers to Brussels. Cyprus is not an exception to this.

Cyprus is the only member of the European Union with 37% of its territory occupied by a foreign army; more than 40,000 Turkish troops settled in the Northern part of the island in 1974. With this in mind, the priority of the political elites, which also garnered the support of the majority of the society, was to join the European Union in the hope that membership could act as a catalyst to solving the Cyprus problem. The same opinion was shared by the European institutions.¹

However, it would be a mistake to address Cypriot membership solely on the grounds of this political problem. In fact, another major motivation for membership was the perceived economic benefit of joining the Union. As the third smallest country in the Union and being located at the periphery (eastern Mediterranean), Cyprus' economy faces particular challenges. Cyprus' economy is highly dependent on exports and has high production costs.²

Having outlined the two major issues behind Cyprus' ambition to join the EU, a

crucial question arises: Has Cyprus gained what it hoped for from its membership? Regarding its political problem the answer is clear. Eleven years after its membership, the Cyprus problem remains unsolved, if not worse. The so-called "European Solution"³ for the Cyprus problem never came. The talks for a solution continue without it being clear whether or not the leaders of the two communities will manage to bring a viable proposal to the people of Cyprus. Despite obvious difficulties, a positive momentum has been created following the election of a new Turkish-Cypriot leader in April 2015. Both Greek-Cypriot and Turkish-Cypriot leaders expressed their determination to intensify negotiations for a viable solution.⁴

Problems also exist in the economic field. Following a series of downgrades from the main rating agencies, the Cypriot government lost access to the financial markets in mid-2011. In addition, its major banks begun to show signs of deterioration. In summer 2012, the government applied for assistance from the European Union and the International Monetary Fund (IMF).⁵ The negotiations with the "Troika" or "the Institutions" (consisting of the European Union, the European Central Bank and the International Monetary Fund), for a multi-year bailout programme concluded on 16 March 2013.⁶ Part of the agreement reached at the Eurogroup summit was that, in order to save the banks, depositors should cover the cost (bail-in).

The Cypriot parliament did not ratify the agreement and a new extraordinary meeting of the Eurogroup took place on 24-25 March. The outcome of this meeting was that, in order for Cyprus to get the 10 billion euros it needed, the investors and depositors of the two largest banks in the country should share the cost. As a result,

the island's second largest retail bank went into liquidation, with depositors losing all their funds over 100,000 euros, while the depositors of the largest bank lost a major percentage of their deposits (on amounts above 100,000 euros per individual).⁷ The events that took place during and after the Eurogroup meetings had a negative impact on the people. Not just financially, but also in general, Cypriots lost faith in the EU and its representatives.⁸

The Cypriot economy suffered its worst demographic outflow since the Turkish invasion of 1974. The general feeling is that a different approach could have been utilised.⁹ Today, the priorities have shifted towards short-term expectations. What Cyprus hopes to gain from its membership is: less unemployment, higher growth, and to be able to provide a better future for the younger generations. But for Cypriots the European project failed. A 2014 Eurobarometer showed that one out of two Cypriots believes that today's Europe has no future.¹⁰

Do you think that the European Union appears to be a clear project in your country? If not, what are the main reasons?

It is a fact that what is decided in Brussels directly affects the lives of European citizens. Despite the efforts of the institutions to communicate their work to the citizens of Europe, this does not always happen successfully. In general, the European project has never been clear, partially due its complex institutional structure, and partially because an 'end-point' has never been defined.¹¹

Before we discuss why the European project does not appear to be clear, it would be helpful to examine the actions taken by the European Union to communicate with its citizens. The representation of the European

Commission and the European Parliament opened in Nicosia in 2004. Since then a number of TV and radio programmes have been aired with topics related to the EU. In addition, through various European projects, such as "Jean Monnet", citizens are educated in issues related to the EU.

Moreover, today the younger generations have the opportunity to be part of Comenius, Erasmus and other student exchange programmes, granting them the opportunity to better appreciate and understand Europe. But this same generation fails to appreciate what has been achieved over previous years, and is becoming more and more sceptical about the European project.¹²

Three facts/beliefs can help us to better understand the reasons behind this. First, for a Cypriot, Brussels and mainland Europe are too far away. This applies both in geographical and political terms. Geographically, Brussels is around 3,780 km from the Larnaca airport. The only way to reach Brussels is by airplane and most of the time you are unable to find direct flights or easily connected flights. Equal distances apply in political terms. The decision-making also happens far away from Cyprus and people find it difficult to connect with European politicians, as they do not have any direct impact on their election, except for Members of the European Parliament. Moreover, as is happening in local elections, the number of voters decreases each time, mainly as an act of disapproval of politicians. Specifically, in 2004 the turnout was 72.5%, while in 2009 it was 59.4%. In the last European Parliamentary elections in 2014 the turnout of Cypriots voters fell to 43.9%.¹³

Second, there is a perception of disappointment concerning Europe.¹⁴ Since 1974, the political problem has been at the top

of the agenda both for the Cypriot government and for civil society. As a result, all actions, decisions and national interests were directly correlated to the political problem. Membership to the Union created high expectations for finding a viable solution under the umbrella of Europe. But the reality was that the EU had little to offer, primarily as the negotiations were held under the auspices of the United Nations, and, most importantly, the refusal of Ankara to accept the EU's more proactive role. Also, people to a great extent failed to understand that the EU is a bloc of 28 countries and that compromises are the norm. This is also linked to the events of March 2013 and what followed with the bail-in. The general belief is that while actions in Cyprus were primarily intended to affect the Cypriot banks, they were also targeted at Russian funds on the island, and consequently to affect good relations between Russia and Cyprus. To sum up, the expectations of what the EU can deliver are higher than what the EU can really offer.

Third, politicians and officials fail to communicate with the people. Most of the time people do not know what is happening behind closed doors. The EU seems more or less like a 'private club', which only a few individuals can access or benefit from. And somewhere in the middle, we have member states trying to promote national interests. Cyprus is no exception. The Cypriot government knows that due to its country's size and level of influence, the only way to promote its national interests is to align with other Member States. A clear example is the efforts the Cypriot government made to tone down its political problem when it held the presidency of the Council in 2013. Sometimes the positions expressed by the Cypriot government at an EU level on specific matters do not necessarily reflect the opinion of its civil society.

Which degree of integration seems adequate to the position and ambitions of your country both politically and economically?

Being a small country, Cyprus has little effect on the degree of integration in the European Union. Nevertheless the events that took place in March 2013, and the discussions that began (especially inside the country, but also at the EU level) on whether Cyprus could or should remain within the Eurozone showed that even a very small state can create a negative "snowball" effect.

Most political parties in Cyprus have promoted the idea that a more 'European' Cyprus can have a positive impact on the negotiations for a permanent solution to the Cyprus problem. It is a fact that after the solution of the Cyprus problem the *acquis* will be implemented in all parts of the island. And the opinion expressed by the political parties is that the *acquis* can provide additional security that will prevent any future conflicts between the two communities. It is important to mention that currently the Turkish Cypriots insist on derogations from the *acquis*:¹⁵ specifically, on the freedoms of property and settlement they raise a number of issues that contradict, in many aspects, the fundamental principles of the EU.

In addition, for a small state, more integration can be seen as a means to furthering security. An example is the discussions at EU level on energy security. With the recent discoveries and exploitation of the hydrocarbon reserves within the Exclusive Economic Zone of the Republic of Cyprus, the government is pushing for further actions from the EU in the area of security. On this matter, during a recent visit to the island by the European Parliament delegation from the Committee on Industry, Research and Energy, its chairwoman Martina

Werner said: "Cyprus plays a very strong role for energy security everywhere in Europe" and also said that there is a need for "more Europe" in the region.¹⁶

The adoption of the euro as the national currency and the accession to the Eurozone countries was considered to be the second most important national target for Cyprus next to the accession to the European Union. Indeed, the accession to the Eurozone looked promising both for individuals and companies. Being a small country and with its pre-existing currency, the Cyprus Pound, Cyprus had limited resources to access international markets on its own. With the adoption of the euro Cyprus is part of a greater market.

Unfortunately being part of the Eurozone meant that Cyprus lost some of the economic tools that could have been used to tackle inflation, rather than adhering to economic decisions taken at the EU level and within the European Central Bank. With increasing problems in its banking sector and with a poor fiscal policy, Cyprus eventually applied for help from the Troika. If Europe had the tools at its disposal today – namely the European Stability Mechanism and the banking union – a number of negative outcomes could have been avoided.

Economic integration has an impact on the national problem too. The European Commission and the leader of the Turkish Community have recently announced that an ad-hoc committee is working on the adoption of the euro in the Northern part of the island. This action will prepare the occupied territories to affiliate more easily with a united Cyprus.¹⁷

Despite its small size, Cyprus continues to support and strengthen its national interests. The voice of Cyprus can be heard clearer as part of the group than outside of it. Yet, national

states must have the liberty to form co-operations and pursue national agendas within the framework of the European Union. Better Europe does not necessarily mean more Europe, but rather united. This way we can achieve more than on our own.

Currently Cyprus is undergoing a tremendous transformation as a result of its EU membership. Part of this transformation is the creation of new institutions and the harmonisation of its legislation. Countries, such as Cyprus have no power whatsoever to influence institutions and policies at the EU level - due to a number of factors, primarily its size - or at least not to the level that powerful countries can. In a way "it is doomed always to follow the rest".¹⁸

According to you, how could we strengthen the idea of belonging to a common European public sphere among your national citizens?

There are many things that need to be done in order to make national citizens feel part of a common European public sphere.

First of all, we need to increase public discussions on European issues. As with national projects when a decision affects an important number of citizens, public discussions take place with the participation of actors across civil society, the private sector, the government and the political parties. Similarly such discussions must take place when European policies (i.e. Environmental Policy; Energy Policy; etc.) might have an impact on the lives of Cypriot citizens (or on any European citizen for that matter). Officials from the respective Directorate Generals (DG) of the European Commission should first visit the affected country to hold extensive discussions with various members of the

society, and not just with governmental officials. Such discussions will help people to feel that their concerns are taken into consideration. This would be productive for the Commission officials as well, as it could improve their proposal and allow it to be more easily accepted by the European Parliament and Member States.

Secondly, European politicians (i.e. the president of the Commission, the president of the European Parliament, Commissioners, etc.) when they are visiting a member state for official discussions/matters should also spend time to have open discussions with other members of society. This will increase the feeling of belonging. It will also be a good opportunity to present their work and get feedback on what further actions must be undertaken. Their role is to serve all European citizens equally without bias or personal agendas. Similarly, they must avoid any actions that may be considered as campaigns for re-appointment. Their role is more supranational and as such must value equally citizens from all across Europe.

Thirdly, a decentralisation of institutions is necessary. For both historical and economic reasons, the majority of the European institutions, or at least the most important of them, are located in Belgium, France, Luxembourg, and Germany. Efforts should be made to decentralise these institutions all across Europe, taking into consideration the uniqueness (in size, geographical position, and existing infrastructure) of each member state. Any decision should serve the interests of both the European Union and each particular member state. This would not necessarily have any direct effect upon the citizens but it will increase the interaction of local societies with the said institutions and as such will strengthen the idea of belonging. Brussels will no longer be

too far away. This will also give the chance to EU officials and bureaucrats to have a daily interaction with local societies, bringing mutual benefits to all sides.

Finally, it is important for citizens to first learn and understand their own culture in order to be able to embrace a common European future and values. Consumed by everyday activities that promote money and consumption as the most important values; people have lost connection with their roots, their values and their traditions. As a result, in today's societies we see extremism and nationalism getting stronger, especially among younger generations. Understanding who we are, what our history is, and what mistakes took place in the past can make people re-appreciate the common values of Europe. That's why the European Idea/Project and the European values must be embodied in the solution which the two communities in Cyprus will agree upon.

Which policies would you deem essential to conduct at the EU level in order to better legitimise the European project?

The European project has been the greatest success story of Europe and national states since the end of World War II. If we examine the history of Europe we easily understand that 65 years of peace in Europe are nothing compared to centuries of bloodshed and conflicts. Nevertheless, the concept of the European project to promote prosperity and peace by surrendering national powers to a supranational organisation is fascinating.

However, after years of legislation, directives, rules, bureaucracy and institutions the European project has lost track. It has become too complex to understand or even appreciate. Failures to integrate member states and their societies create tensions domestically

and miscommunication abroad. In other words, the Union has failed in a number of ways to act as a union. Some recent examples are: the issue of Kosovo and the fact that some member states recognised its independence and others did not, the Monetary Union and the financial crisis, protection of internal and external borders and migration policies.

For small states that have little impact on European policies or decisions, the question is not so much what specific policies must be conducted at the EU level. Rather the question is what policies require amendments or alterations in order to take into consideration the different characteristics of each state, without compromising what has been achieved at a European level.

Specifically, there is more to be done for a complete monetary union. Perhaps the most obvious mistake where the EU got it wrong regarding the single market and monetary issues is that not all member states are the same. A clear example of this is the fact that the European Central Bank (ECB) was modelled more or less on the German Bundesbank.¹⁹ But not all states have the capability or the know-how to cope with different kinds of situations in the way the more powerful states are able to; as was the case for Cyprus. So, the first step to better legitimising the European project is to reconsider the monetary policies and new regulations that are to be adopted. This will lead to a better appreciation of the different characteristics of each state, while leaving enough room for flexibility in order to adjust to those characteristics without violating EU treaties or criteria.

In order for more policies to be conducted at the EU level and especially in order for the economic union to be successful in all areas,

member states must agree to a more political union. All policies that are currently in place cannot have any real effect without the political will of member states. Most importantly several member states including Cyprus are not willing to give more powers to the Commission.

For example, the unification of the tax system in the EU requires the existence of political will in member states. Existing policies should be redesigned to address the issue of further political union and all new policies should take into account this aspect. Failure to achieve this will lead to the danger of the dissolution of the Union. This is not to say that current policies have not worked properly up until now, but rather, as was the case with the financial crisis, the EU lacks the necessary mechanisms to act promptly and efficiently. Currently, there are so many EU bodies and national institutions (such as national parliaments) involved in decision making (i.e. amendment of a treaty) that instead of acting proactively they end up trying to fix what went wrong.

In order for the above to really matter, member states must first decide what future they want for Europe. "A federation of nation states" has always been a hypothetical (and quite controversial) scenario. A more popular scenario that is gaining ground is the one for a multi-speed Europe. In the last few years, new words have been emerged such as "Grexit" and "Brexit" - both of which imply the possibility of exiting the EU. The only way for the European Union to be seen as legitimate is when member states take into account what future their citizens want for Europe. This does not necessarily mean that the only options are either a federal Europe or dissolving the EU as we know it. Rather, it means decisions need to be made and fast.

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