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# THE CYPRUS REVIEW

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Journal of Social, Economic and Political Issues

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**VOLUME 11  
NUMBER 1**

## THE CYPRUS REVIEW

a Journal of social, economic and political issues

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*Articles and chapters in books:*

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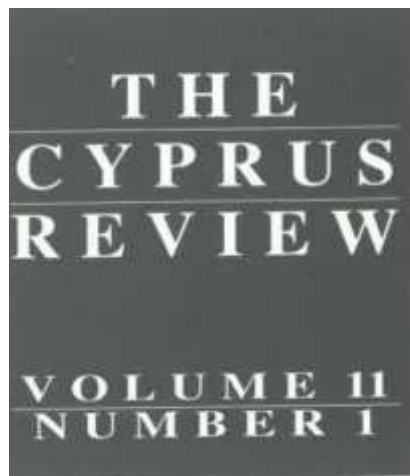
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# Articles

VOLUME 11  
NUMBER 1



# IS A COMPROMISE SETTLEMENT IN CYPRUS STILL POSSIBLE? REVISITING THE GHALI 'SET OF IDEAS'

Zenon Stavrinides

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## Abstract

*Is there any realistic hope that the Greek and Turkish Cypriot communities may still manifest the desire and political will to negotiate and eventually achieve a mutually acceptable settlement to the long-festering Cyprus problem, obtain the endorsement of the governments of Greece and Turkey as well as the United Nations, and proceed to forge together a common future? The two communities have been following divergent paths since 1974, if not 1963. The Republic of Cyprus is now going full steam ahead with the European Union accession talks and is doing all it can to harmonise its legislation, economic and administrative systems and trading practices with those of the EU. 'The Turkish Republic of Northern Cyprus', whether or not it is referred to in inverted commas or in an ironic tone of voice, exists in complete independence from the Republic of Cyprus (but of course is completely dependent on Turkey) and works to promote ever closer political and economic links with Turkey, so that if the Republic of Cyprus joins the EU before there is a settlement, the TRNC will become to all intents and purposes a province of Turkey. Is there no hope of arresting this drift towards cementing the division of Cyprus into two hostile lands and peoples, in effect the Cyprus-based branches of Hellenism and the Turkish nation?*

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The last time the leaders of the Greek and Turkish Cypriots conducted serious negotiations for a Cyprus settlement was in the summer of 1992, when the then President of Cyprus Mr George Vassiliou and the Turkish Cypriot leader Mr Rauf Denktash met for a series of talks under the chairmanship of the UN Secretary-General Dr Boutros Ghali. In August 1992 Dr Ghali presented a carefully crafted body of proposals for a settlement entitled 'Set of Ideas' (including a map indicating territorial adjustments), which received Security Council endorsement through resolution 774/92. The negotiating process broke up in the autumn as the campaign for the Greek Cypriot presidential elections went into full swing. Mr Vassiliou and AKEL which supported him presented the 'Set of Ideas' to the Greek Cypriot public

as a good basis for the search of a just and lasting settlement. Mr Glafcos Clerides and other presidential candidates argued that the document was unacceptable as it stood because it contained restrictions on human rights and the implementation of the European Union *acquis communautaire*. Mr Denktash had already indicated that 91 out of the 100 paragraphs of the document were unacceptable to him. The 'Set of Ideas', just like proposals put forward from time to time by Ghali's predecessor Mr Javier Perez de Cuellar, provoked disagreements within each community between, on the one hand, those people who wanted to obtain all or nearly all the elements which, in their view, constituted a just solution, and on the other hand, those who believed that it was simply unrealistic to expect that negotiations could yield a package incorporating only elements demanded by them but rejected by the other side, and no elements rejected by them but demanded by the other side, and consequently both sides should moderate their respective demands and aim at a balanced and honourable compromise. The winner of the February 1993 elections was Mr Clerides, who declared his willingness to negotiate with Mr Denktash a settlement based on the High Level Agreements of 1977 and 1979, the UN resolutions, human rights norms, and the rules of international law (with the *acquis communautaire* sometimes thrown in). By then, however, the momentum gained during the Vassiliou-Denktash negotiations had been lost, and in the next year the two sides confined their contacts almost exclusively to the creation of a set of Confidence-Building Measures, which again led to nothing. The next UN Secretary-General Mr Kofi Annan revived part of the 'Set of Ideas' and presented it through his Special Representative Mr Diego Cordobez to President Clerides and Mr Denktash in summer 1997, when they held two abortive sets of meetings at Troutbeck, New York State and Glion, Switzerland. By then Mr Denktash was not willing to engage in substantive talks for a Cyprus settlement unless he was recognized as a head of a sovereign Turkish Cypriot state, and further the Greek Cypriots terminated their efforts to take the Republic of Cyprus into the European Union. Since this was unacceptable to the Greek Cypriots and the United Nations, the negotiating process broke up. Indeed, it is fair to say that during the Clerides' years, given the absence of any substantive negotiations for a Cyprus settlement, the Greek and Turkish Cypriot communities no longer discussed among themselves what a Cyprus settlement could be like in any but the vaguest terms.

Yet it is plain that if a settlement is to be found in Cyprus, the two sides will have to negotiate and finally reach agreement on a range of subjects, some of which may be more important to one side and some to the other. The UN has always recommended to the two sides to show understanding for each other's needs, interests and concerns, and to work in good faith for a compromise settlement through mutual concessions. Mr Denktash failed to persuade the UN to recognize the TRNC as a sovereign state; but President Clerides failed to persuade the UN that he had a better framework for a comprehensive settlement than the Ghali 'Set of Ideas',

hence the Cordobez document. If the efforts which Dame Ann Hercus, the former UN Secretary-General's Deputy Special Representative on Cyprus, undertook in the autumn of 1998 to get the two sides on the negotiating table were to bear fruit, it is as certain as anything that the 'Set of Ideas' would have been brought back. It may be noted in this connection that some time after Dr Boutros Ghali presented the 'Set of Ideas', he asked the two sides to state their respective reactions to each of the various proposals set out in the document. He held discussions with President Vassiliou and Mr Denktash between 28 October and 6 November 1992 to ascertain their views, and on 11 November he brought out a paper entitled 'Summary of the Current Positions of the Two Sides in Relation to the Set of Ideas'. This paper represents the only attempt ever made by the UN to codify the positions of the two sides on various aspects of a Cyprus settlement, and wherein their points of agreement and disagreement lie. Indeed, it is a fair assumption that the Greek and Turkish Cypriot positions contained in the paper still express the views of the two sides, unless in the meanwhile President Clerides and Mr Denktash have put forward different views. So if the 'Set of Ideas' is still the UN frame of reference for intercommunal negotiations, the points of disagreement contained in the 'Summary' indicate the obstacles that need to be removed, if a compromise settlement can be achieved in Cyprus.

The Ghali 'Set of Ideas' presents its proposals under a number of headings, including 'Preamble', 'Overall Objectives/Guiding Principles', 'Constitutional Aspects of the Federation', 'Security and Guarantees', 'Territorial Adjustments' and 'Displaced Persons'. The Preamble is a short paragraph which was meant to be uncontroversial, beginning with the words "The leader of the Greek Cypriot community and the leader of the Turkish Cypriot community have negotiated on an equal footing..." This text did not provoke any reactions in the Greek Cypriot or Turkish Cypriot sides in 1992. As was mentioned, in 1997 Mr Denktash took the line that the requirement of equality between the negotiating parties implied that he should be recognized by the UN as the president of a sovereign state, as was Mr Clerides. This would be unacceptable to Greek Cypriots, as indeed to the international community. It is to be hoped that the two sides can resume negotiations and proceed to discuss their disagreements on the various aspects of a Cyprus settlement, without making initial demands on each other which cannot be met.

The section entitled **Overall Objectives** makes a number of points on the constitutional form of the state that is to be established as part of a Cyprus settlement, one of which is rejected by the Turkish Cypriot side while it is accepted by the Greek Cypriots. The points in question are:

...The Cyprus settlement is based on a State of Cyprus with a single sovereignty and international personality and a single citizenship, with its independence and territorial integrity safeguarded, and comprising two political equal communities...in a bicomunal and

bizonal federation, and that the settlement must exclude union in whole or in part with any other country or any form of partition or secession.

The Greek Cypriot side have long insisted that sovereignty and international personality should be the exclusive properties of the federation as a whole, for they feared that if the federated states were allowed a locus standi under international law, the Turkish Cypriots would be in a position at some point in future to exercise the sovereign right to break away from the federation, declare the Turkish Cypriot federated state to be an independent republic, and as such ask for recognition from the international community and admission to the United Nations. The Turkish Cypriots' point of view on the matter is based upon their interpretation of the events of December 1963, which is that the Greek Cypriot leaders usurped or highjacked the power of the state against the provisions of the 1960 constitution, shut the Turkish Cypriots out of the machinery of the state, and got themselves accepted by the international community as the government of the Cyprus Republic. Could this not happen again, the Turkish Cypriots ask, if the projected federal constitution does not grant any sovereign authority to the federated states? Further, the Greek Cypriots argue that there is at present only one sovereign state, the Republic of Cyprus, whose northern sector is under foreign control, and the question is how to reconstitute this state on federal lines in the context of a peaceful settlement. The Turkish Cypriots, however, believe the TRNC to be a real, live, sovereign and independent state, just like the Republic of Cyprus, in which case the real question is how much of this sovereignty and independence the two states are going to transfer to a system of joint organs which will form the federation. Thus the Turkish Cypriot position on the matter is as follows:

The result of the overall framework agreement will be the establishment of a bicomunal, bizonal federal republic by two politically equal corporate bodies from which the sovereignty of the federal republic shall emanate. The two equal federated states will each freely agree to devolve a portion of their respective federal powers to the federal government. The Turkish Cypriot side declares that the essence of its position is that "The federated states are sovereign insofar as their sovereignty is not limited by the sovereignty of the federal state."<sup>1</sup>

Greek Cypriots may abhor the suggestion that the projected federation will be formed by the union of two currently existing "corporate bodies", but some of them realize that the whole idea about sovereignty is that it consists in the possession of supreme and unrestricted authority to make and enforce laws, policy and administrative decisions. If the aim of the negotiating process is the establishment of a bizonal federation, then there will have to be a division of powers between the federal government and the governments of the two constituent federated states; and further, in those areas which come under the jurisdiction of the federated states, the various organs of each state will exercise due authority without interference from

either the other state or the federal government. Thus, if the essence of the Turkish Cypriot position were to be re-formulated in some such terms as "The federated states have unrestricted authority to make laws, policies and administrative decisions in all areas outside the jurisdiction of the federal organs, but consistent with the constitution", Greek Cypriots would have no grounds for objection, for they have already accepted a federal settlement.

It is important to note that when the 'Set of Ideas' suggested, under the heading '**Constitutional aspects of the federation**', a list of **powers to be vested in the federal government**, neither side found any cause for disagreement. The list includes all the powers which the central government in a federation would have to have, which includes not only the obvious items like foreign affairs, federal budget and taxation, and customs and the co-ordination of international trade, but also immigration and citizenship, which Greek Cypriots would not want, for obvious reasons, to be assigned to the jurisdiction of the federated states. The Turkish Cypriots, however, raised certain objections to proposals made on the **structure, composition and functioning of the federal government**, and more specifically the executive branch of government, while the Greek Cypriots asked for certain modifications. The relevant paragraphs of the 'Set of Ideas' are as follows:

36. The federal executive will consist of a federal president, a federal vice-president, and a federal council of ministers. The president and the vice-president will symbolise the unity of the country and the political equality of the communities...

38. There will be a council of ministers composed of Greek Cypriot and Turkish Cypriot ministers on a 7:3 ratio... One of the following ministries, that is, foreign affairs, finance, or defence will be allocated to a Turkish Cypriot minister. The president and the foreign minister will not come from the same community.

40. Decisions of the council of ministers will be taken by majority vote. However, decisions of the council of ministers concerning foreign affairs, defence, security, budget, taxation, immigration and citizenship will require the concurrence of both the president and the vice-president.

42. The president and the vice-president will, separately or conjointly, have the right to veto any law or decision of the legislature concerning foreign affairs, defence, security, budget, taxation, immigration and citizenship. The president and vice-president will have the right, separately or conjointly, to return any law or decision of the legislature or any decision of the council of ministers for reconsideration.

With regard to paragraph 36, Greek Cypriots adopted the position that "The federal president and vice-president symbolise the unity of the country and should have a universal mandate. They must therefore be elected by federation-wide and weighted universal suffrage. Such federation-wide elections would foster intercommunal harmony. For all these reasons rotation is not an acceptable option." The

underlying idea seems to be that when presidential election is held, any citizen who possesses the usual qualifications, whether Greek or Turkish Cypriot, can put himself forward. Assuming that there are four times more Greek Cypriot than Turkish Cypriot voters, the vote from a Turkish Cypriot voter will count as equivalent to two or three or possibly four Greek Cypriot votes (depending on the details of the electoral law). If the person who wins the presidential election belongs to the Greek Cypriot community, a vice-president will have to be elected from among candidates belonging to the Turkish Cypriot community (or vice versa), and again the vote from a Turkish Cypriot voter will count as equivalent to two or more Greek Cypriot votes. The rationale of this system is that candidates for both the presidential and vice-presidential elections will have an interest and a motive to appeal not only to their own community, but to the other too. Although it is most unlikely that, under Greek Cypriot proposals, a Turkish Cypriot could become president, it is worth noting that given that Mr Vassiliou won the 1988 election by a margin of about 1.5%, and Mr Clerides won the elections of 1993 and 1998 by 0.5% and 1.5% margins respectively, Turkish Cypriot participation in these elections could have made a decisive difference.

The Turkish Cypriot position on the matter of the election of the president and vice-president is as follows: (a) The president and vice-president symbolise the bicomunal nature of the federation and the political equality of the two communities. Therefore, representatives of each community should rotate in the presidency. (b) The rotation of representation of the federation at official occasions overseas would reflect internationally the bicomunal nature of the federation. (c) Election by common electoral roll would negate the historical rights of each community and would be contrary to the bicomunal character of the federation.

The Turkish Cypriot positions in relation to paragraphs 38 and 40 of the 'Set of Ideas' are again uncompromising:

The council of ministers should be composed of an equal number of Turkish Cypriot and Greek Cypriot federal ministers to reflect the political equality of the two communities... [It] should function on the basis of consensus.

Greek Cypriots are only prepared to accept the principle of political equality if it means parity of executive and legislative power between the Greek and Turkish Cypriot communities. If the constitution were to stipulate that there should be the same number of Greek and Turkish Cypriot members of the council of ministers, it would deny the Greek Cypriots the satisfaction that there is some acknowledgement of the fact that their community is four times larger than the Turkish Cypriot community. Whenever Turkish Cypriot leaders express the demand for the rotation of the presidency and the equal distribution of ministerial portfolios between the two



sides, Greek Cypriot indignation and bitterness suggest that they believe the Turkish side is trying to walk all over them. Not only Greek nationalists, but also people of moderate views and dispositions think that if there has to be a numerical formula for the distribution of portfolios, this must be a ratio which to some extent reflects the relative size of the two communities.

Can the disagreement between the two sides on participation in the council of ministers be resolved? It is difficult to see how - but the following possibility could be explored. Maybe it can be agreed that for each of the ten ministries (let us say), there should be one minister and one deputy minister who will not be a member of the council of ministers, although he will participate in appropriate ministerial committees. Seven of the ministries should be headed by a Greek Cypriot and three by a Turkish Cypriot, as Dr Boutros Ghali suggested; but further every ministry headed by a minister belonging to one community should have a deputy minister belonging to the other community, in which case there will be seven Turkish Cypriot deputy ministers and only three Greek Cypriot. This system will give the Greek Cypriots the satisfaction that the largeness of their community is acknowledged and it is given a higher profile in the executive, while the Turkish Cypriots, with three ministers and ten deputy ministers will feel that their participation in the executive is full and effective. Perhaps a more important advantage is that every ministry will be under both Greek and Turkish Cypriot political officials who will be responsible for the formulation and application of policy, and so no ministry will be thought of as being Greek-controlled or Turkish-controlled.

One may wonder why the Turkish Cypriot side need insist on consensual decision-making in the council of ministers, given that the Greek Cypriots have conceded the proposal contained in paragraph 40 of the 'Set of Ideas'. Sir David Hannay suggested, at some point, that the executive should function on the principle of 'co-decision' by the president and vice-president. Greek Cypriots did not like it, but they might accept it, if it served to persuade the Turkish Cypriots that the president should be Greek-Cypriot and the vice-president Turkish Cypriot.

The next item on the constitutional aspects of the negotiating agenda is concerned **with fundamental rights, including the three freedoms, and political, social and cultural rights**. The 'Set of Ideas' proposes that

47. All universally recognized fundamental rights and freedoms will be included in the federal constitution.

48. The freedom of movement, the freedom of settlement and the right to property will be safeguarded in the federal constitution. The implementation of these rights will take into account the 1977 High Level Agreement and the guiding principles set out above.

49. The freedom of movement will be exercised without any restrictions as soon as the federal republic is established, subject only to non-discriminatory police functions.

50. The freedom of settlement and the right to property will be implemented after the resettlement process arising from the territorial adjustments has been completed. The federated states will regulate these rights in a manner to be agreed upon during the transitional period consistent with the federal constitution.

In autumn 1992 the Greek Cypriot side accepted these proposals in principle, and added that "these rights and freedoms must be entrenched in the federal constitution and safeguarded by the federation. Their application may be regulated by the federal states, but limitations of these rights contrary to international law and human rights instruments are not acceptable." It is clear that the Greek Cypriot side wants to discourage, as far as possible, the Turkish Cypriots from imposing any arbitrary restrictions on the freedom of settlement and property ownership, by writing these rights in the federal constitution, so that any Greek Cypriots who believe their rights are being denied to them can bring action in the Federal Supreme Court. But exactly how is this course of action going to work in practice? Let us suppose that following a Cyprus settlement, a group of Greek Cypriot businessmen puts together a large amount of money to buy land in a certain area to the east of Kyrenia which has belonged to Turkish Cypriots since before 1974 with a view to building holiday homes for Greek Cypriots. Let us also suppose that the owners of the land are willing to sell but the authorities of the Turkish Cypriot federated state are opposed and they introduce legislation to prohibit the sale to Greek Cypriots, citing reasons of security and public interest. If the Greek Cypriot businessmen file a suit against the Turkish Cypriot authorities to the Federal Constitutional Court, they may lose (in which case Greek Cypriots may accuse the Court of allowing itself to be influenced by Turkish Cypriot politicians), or win (in which case, things being the way they are now, Turkish Cypriots will be angry and worried, and quite possibly willing to use other means, foul or fair, to induce the owners not to sell their land, or to harass and create difficulties for the businessmen). It may even be possible for the businessmen to take the case to the European Court of Human Rights, but whatever the outcome of the case, it may cause terrible acrimony between Greek and Turkish Cypriot politicians, officials and the communities in general. For once Turkish Cypriots come to believe that the Greek Cypriots are apt to use their purchasing power to harm their economic and security interests, Greek Cypriots wanting to live and conduct business in the Turkish Cypriot federated state will be antagonised by Turkish Cypriot people and possibly threatened by them. The point of this pessimistic thought-experiment is that Greek Cypriots may argue for increased rights for their own people in the north, claiming glibly that such arrangements are "for the benefit of both communities"; but the brute fact of the matter is that if the Turkish Cypriot authorities judge that such arrangements are not in their own eco-

nomic and security interests, they will prevent them one way or another. Thus the only way open to the Greek Cypriot community for achieving effective protection of the rights of Greek Cypriots who wish to live in the north is to persuade Turkish Cypriots themselves - and not the European Court for Human Rights - that they have nothing to fear from them. In any case, it is instructive to study the Turkish Cypriot positions in relation to the paragraphs 47-50 cited above. They are as follows:

The exercise of the freedom of movement without any restriction as soon as the federal republic is established is accepted provided that by that stage arrangements for settling property claims will have been agreed. The freedom of settlement and the right of property will be regulated by the federated states in a manner to be agreed upon, consistent with the federal constitution and which preserves the bicomunal nature of the federation. The freedom of settlement and the right to property will be implemented gradually and in phases after the settlement process arising from the territorial adjustments has been completed and following a moratorium for confidence-building. The federated states, in regulating these rights, will give due regard to the bicommunality and bizonality of the federation, the need to prevent intercommunal conflict, their economic interests and the preservation of communal identity...

Little reflection is needed to show that the Turkish Cypriot side is bent on securing what it calls "the settlement of property claims" or "exchange of properties and compensation", before any rights of Greek Cypriots are implemented in the north. Thus, for the Turkish Cypriot side the matter of the implementation of the three freedoms is linked to a solution of two interconnected issues of major importance: first, **territorial adjustments** and second, **displaced persons**. The interconnectedness of the issues is brought out by considering the following points:

1. The Turkish Cypriots, who before the Turkish invasion constituted 18% of the population of the island, currently control about 34% of the land, and this is generally regarded as very unfair. Turkish Cypriot officials sometimes offer arguments why the Turkish Cypriot federated state of the projected federation should retain more territory than 18%, and there seems to be some sympathy in international circles for this point of view. Since 1984 it is assumed that the Turkish Cypriots will keep about 29% of the territory.

2. The Turkish invasion and the subsequent division of the island caused the displacement of 160,000 Greek Cypriots and 45,000 Turkish Cypriots. All Greek Cypriot refugees were re-housed by the late 1970s, but most of those who are still alive 25 years later, as well as their heirs, demand implementation of the right of return to their homes and properties, and all Greek Cypriot politicians and ordinary people are in sympathy with them.

3. It is understood that the more territory that used to be inhabited by Greek Cypriots is to be returned to the Greek Cypriot federated state, the less difficult the problem of what is to happen to other Greek Cypriots whose homes and properties remain in the territory of the Turkish Cypriot federated state.

During the period leading up to the preparation of the 'Set of Ideas', Dr Boutros Ghali and his officials reflected on a number of criteria to which the Turkish Cypriot side attached particular importance - maintaining the coastline controlled by the Turkish Cypriots, respecting traditionally Turkish Cypriot areas, taking account of the distribution of water resources etc - and the Greek Cypriot view that territorial adjustments should permit the largest possible number of Greek Cypriot refugees to return to their own homes and properties, and proceeded to produce the Ghali map which marked the borderline of the Greek and Turkish Cypriot federated states. President Vassiliou accepted the map as a basis for a settlement, and although Mr Clerides at the time expressed some dissatisfaction, he is thought to find it acceptable too.

Territorial adjustments on the basis of the map would mean that the Turkish Cypriot area will be reduced from 3,355 square miles to 2,613 square miles (equivalent to 29.05% of the total territory of the Republic of Cyprus). The 742 square miles which would be given over to the Greek Cypriot side constitute an area which in 1974 was inhabited by about 78,500 Greek Cypriots - about half of all refugees.<sup>2</sup> In the quarter-of-a-century since 1974, some one-third of all Cypriots must have died, but the net increase in population is about 1% per annum. So if the Ghali map is 'implemented', about 100,000 Greek Cypriots - surviving refugees and descendants of refugees - will be able to take possession of their homes and properties. How many of these people would be *actually* willing to exercise their right of return is an interesting question which no Cyprus government or Greek Cypriot organisation has ever attempted to investigate. It is highly probable that the vast majority of Greek Cypriots from Famagusta and its suburbs (estimated to be about 30,000) would return to recreate the thriving community with its tourist and port-based economy, and so would most of the people of the north-eastern area of Morphou (about 7,500 people) and the surrounding villages (another 5-7,000). But how many people would want, given the opportunity, to return to small peasant communities from which, back in the early 1970s, young men tended to leave in order to seek better-paid work and a better life-style in the towns? The best guess is that if 100,000 Greek Cypriots are given the option of returning to their homes and properties under Greek Cypriot administration, only about one-half of these would want to return, and most of these will be old.

But what would the implementation of the Ghali map mean for the Turkish Cypriots? Mr Denktash was dismayed when Dr Boutros Ghali presented it to the

two sides, arguing that it would result in 37,433 Turkish Cypriots having to leave their present homes - homes to which, in many cases, they had received 'title deeds' from the authorities of the TRNC. In fact the 'Set of Ideas' shows great sensitivity to the needs of Turkish Cypriots currently in areas which, according to the Ghali map, will come under Greek Cypriot administration; for it provides that:

74. The Turkish Cypriots who in 1974 resided in the area that will come under Greek Cypriot administration will have the option to remain in their property or request to receive a comparable residence in the area that will come under Turkish Cypriot administration. Turkish Cypriot displaced persons currently residing in the area that will come under Greek Cypriot administration will have the option to receive comparable residence in that area, to return to their former residence, or to receive a comparable residence in the area that will come under Turkish Cypriot administration.

It should be noted that if this paragraph forms part of a Cyprus settlement, it is theoretically possible that all 7,500 Greek Cypriots who have a right to live in Morphou will go there, and all Turkish Cypriots who currently inhabit the town (many of whom were born there) will move to "comparable residence in that area". But can Morphou double in size to provide homes and means of livelihood for 15,000 Greek and Turkish Cypriots? It may be possible to build a set of attractive housing estates for a few thousand Turkish Cypriots on the northern edge of Morphou and persuade the current Turkish Cypriot inhabitants of the town to move there en masse to create the municipality of Yeni Guzelyurt within the Turkish Cypriot federated state, thereby preserving the identity of the community, its connection with the locality, and its inclusion in the Turkish Cypriot federated state. But is it possible to expand by 100% the citrus groves, or offer alternative employment to those Turkish Cypriots who are currently growing citrus? The answer is plain: all agricultural land in and around Morphou is owned by Greek Cypriots, who will want to claim it, if this option is open to them. Here, then, is a very difficult problem whose solution requires considerable ingenuity. It will be less difficult to solve, if it turns out that many Greek Cypriots from Morphou do not wish to live there, or if they do, they lack the skills and the interest to tend their parents' and grandparents' groves and so they are willing to give them up in return for compensation. In that case, it may be possible to create a physically and socially united urban centre, split into two municipalities of Morphou and Yeni Guzelyurt, each belonging to a different federated state, following the same basic idea as Lefkosia-Lefkosa and Ammochostos-Magusa.<sup>3</sup>

Another very difficult problem is bound to arise if a large proportion of the Greek Cypriot displaced persons who in 1974 lived in what is to form the territory of the Turkish Cypriot federated state or who descended from those people (estimated to be about 100,000) do wish to return to their homes or properties. Given that (a) the indigenous Turkish Cypriots currently living in the north are estimated to be about

70,000, and (b) the Greek Cypriot side demands that all settlers from mainland Turkey will have to leave, it follows that if all Greek Cypriots return, they will form the majority there. Could the Greek Cypriots form the majority in both the south and the north of Cyprus? Could a situation arise in which the authorities in the Turkish Cypriot federated state find they have a larger Greek Cypriot population than a Turkish Cypriot population? The fact is that both Greek and Turkish Cypriots, as well as the UN and foreign diplomats involved in efforts for a settlement, assume that the majority of the inhabitants of the Turkish Cypriot federated state will be Turkish Cypriots.<sup>4</sup> However, a number of Security Council resolutions recognize the right of all displaced persons to return 'voluntarily' to their former homes and properties in conditions of safety, and both UN officials and Greek Cypriot officials and politicians are bound to support the implementation of this right. However, the Turkish Cypriots are steadfastly opposed to the return of great numbers of Greek Cypriots to the Turkish Cypriot federated state, and no major power has ever said that it wants to see all Greek Cypriot refugees return to their homes, much less that it intends to lean on the Turks to ensure that this happens. Those Greek Cypriot politicians, including President Clerides, who think that the problem of Greek Cypriot refugees is soluble must be supposing either that for some reason the Turkish side is suddenly going to withdraw its opposition, or that the prohibition of any but a small number of Greek Cypriot refugees from returning to the Turkish Cypriot federated state would be tolerable to the majority of Greek Cypriot people, *if other elements in the package settlement are acceptable*.

Let us look at what the 'Set of Ideas' has to say about the refugees from what is to form the territory of the Turkish Cypriot federated state. The document proposes a system of arrangements whereby (a) the displaced persons - Greek or Turkish Cypriots - who do not want to go back to their homes and properties will have a right to obtain compensation and (b) the displaced persons who wish to return will have a right to do so. With regard to the first group the document proposes, among other things, the following:

76. Each community will establish an agency to deal with all matters related to displaced persons.

77. The ownership of the property of displaced persons, in respect of which those persons seek compensation, will be transferred to the ownership of the community in which the property is located.

To this end, all titles of properties will be exchanged on a global communal basis between the two agencies at the 1974 value plus inflation. Displaced persons will be compensated by the agency of their community from funds obtained from the sale of the properties transferred to the agency, or through the exchange of property...

The main idea, here, is clear enough, even though the mechanics of evaluating properties and funding the provision of compensation needs careful and detailed working out.<sup>5</sup> With regard to the second group of displaced persons, the 'Set of Ideas' states, among other things, that

84. The settlement of those who select to return will take place after the persons who will be affected have been satisfactorily relocated. If the current occupant is also a displaced person and wishes to remain, or if the property has been substantially altered or has been converted to public use, the former permanent resident will be compensated or will be provided an accommodation of similar value.

This proposal was accepted by President Vassiliou as a basis for negotiation, but - predictably - was opposed by Mr Denktash. The Turkish Cypriot side theoretically accepted the principle of the refugees' rights of return and property ownership, but in practical terms it dealt the principle the rejection of a thousand conditions. For one, most Greek Cypriot properties on the Turkish Cypriot side have been allocated to Turkish Cypriots. These allocations created legally valid title deeds... Most of the Greek Cypriot property currently being used by the Turkish armed forces has been allocated to Vakfs [religious trusts]... Greek Cypriots who owned property in the Turkish Cypriot area will be compensated from funds obtained, inter alia, from the sale of Turkish Cypriot properties on the Greek Cypriot side. At current value, the Turkish Cypriot property left in the south roughly corresponds to the Greek Cypriot property left in the north.

Even more ominously, the Turkish Cypriot position states that:

The option of return will be exercised after a mutually agreed moratorium. The settlement of those who select to return will take place after the persons who will be affected have been satisfactorily relocated. A review mechanism will be established in each federated state in a mutually agreed manner to determine upon recourse by the present owner and/or occupant whether there are circumstances which preclude relocation in that particular case. In that event, or if the owner and/or occupant is also a displaced person or a bona fide purchaser or heir, or if the residence has been substantially altered; or has been converted to public use or allocated to public service institutions, Vakfs etc, or... [the list of conditions goes on and on], the former permanent owner will be compensated.

The Greek Cypriots are vehemently opposed to what they consider as Mr Denktash's attempts to legalize the usurpation of their homes and properties by the Turkish Cypriots. According to Dr Boutros Ghali, President Vassiliou insisted during the proximity talk that preceded the drafting of the 'Set of Ideas', on the right of return and of the right to property, "while recognizing the need to resolve practical difficulties faced by the Turkish Cypriot side. He stressed that he was opposed to

any recognition of massive confiscation of the properties of displaced persons, since it would be contrary to resolutions of the United Nations and human rights instruments." <sup>6</sup>

The position of the Greek Cypriot and the Turkish Cypriot side reflect the moral beliefs, economic interests and political passions of their respective communities, and of course they are in direct conflict. Further, the Greek Cypriots demand that Turkish mainland settlers - estimated to be about 80,000 - should be sent back to return to Turkey. The Turkish Cypriots, however, make a distinction between those Turkish settlers who were given TRNC citizenship and those who came as seasonal workers with the permission of the Turkish Cypriot authorities or even without it; and they say that while seasonal workers will eventually leave, the former group have as much right to stay permanently in the north as the few hundreds of foreigners who received citizenship of the Republic of Cyprus have a right to stay in the south. There is at present no sign that the Turkish Cypriot authorities will cancel or invalidate their own laws and administrative decisions in order to facilitate negotiations for a Cyprus settlement. So is the deadlock on this issue complete and irrevocable?

It seems that the deadlock is just that, and no compromise appears practicable, if any considerable number of Greek Cypriot refugees, with support from the Greek Cypriot authorities, do actually want to exercise the right of return, and to own and enjoy the use of their property in the Turkish federated state of Cyprus. What needs to be investigated, however, is whether they do want that; and will continue to want that, if and when the political rhetoric which Greek Cypriot politicians and the media have so loudly produced subsides and a cooler assessment of the situation is formed.

1. It is well known that since the 1960s, if not earlier, there has been a drift of young people from the countryside, where for the most part agriculture could not support a reasonable standard of living, to the towns to seek work and better opportunities for advancement. This trend was intensified throughout the 1960s and early 1970s as a result of the development of light manufacturing industries, service industries and more particularly tourism in a number of urban centres. Once young people tasted the satisfactions of urban life and the challenges of a career and social advancement, they turned their backs on country life. Even if the Turkish invasion and the consequent displacement of the Greek Cypriot inhabitants of the north did not take place, the likelihood is that the countryside in what is to become the Turkish federated state of Cyprus would not hold many attractions to keep young people in their villages; and when older people died, the village communities would gradually disappear. (If any evidence is needed for this hypothetical judgment, one need only take a look at the countryside in the Paphos district.) Kyrenia,



a town of great charm and considerable potential for tourist development, is a special case; and if the former Greek Cypriot inhabitants were allowed to return, many will consider this option seriously. But with the exception of Kyrenia (whose population in 1974 was about 3,000 Greek Cypriots and 500 Turkish Cypriots), the villages in the Kyrenia mountain range and the plain of Mesaoria would not see many of their former Greek Cypriot inhabitants if they were given the right of return.

2. People want to live near the places of work, and a considerable proportion of Greek Cypriot families have more than one member working outside the home. Let us suppose that following a settlement, Greek Cypriot refugees are allowed to go back to their former homes, and a certain family in which the husband comes from one of the northern villages have to consider what to do. Can they find jobs for the husband, the wife, and the adult unmarried children? Quite possibly the wife will not be coming from the same village as her husband and cannot be expected to be attached to it, and the children will not have any experience of, or liking for, the rigours of farming. The chances are that they will want to stay put - where their jobs, current home and friends are - and at most they will want to visit the old village a few times a year and probably sell any land they may have there.<sup>7</sup>

3. Greek Cypriots often appeal to UN resolutions concerning the rights of refugees and demand that Turkey and the Turkish Cypriot authorities implement them. For example, General Assembly resolution 3212 of 1 November 1974 called inter alia for "the return of all refugees to their homes in safety" and resolution 3395 of 20 November 1975 called for "voluntary return of all refugees to their homes in safety". But how safe could Greek Cypriots be in Kyrenia or the villages in the north, in a hypothetical situation in which the Turkish Cypriot authorities, put under intolerable pressure by the international community and Turkey, were to allow them in? The international community has done little to bring about reconciliation and friendship between the two communities, and the two communities have done even less in this regard. If a number among the former Greek Cypriot inhabitants of Kyrenia were to go back there following a settlement, and found a hostile Turkish Cypriot and Turkish population of 13,000, how would they feel? Will they demand that the current occupiers of their homes be turned out so that they can move in themselves. Is there a chance of this happening? And if as a result of any disputes, intercommunal violence breaks out, whom are the Greek Cypriots going to seek protection from? The Turkish Cypriot police force? The Turkish Cypriot courts? UNFICYP? Greece?

4. Besides, if all Greek Cypriots who wish to go to the north and take possession of their properties were to be permitted to do so, the same should apply to Turkish Cypriots who wish to go to those parts of the south: in Larnaca, Limassol and Paphos which Greek Cypriots have used for nearly a quarter of century and turned

them into lucrative tourist attractions. Is it so clear that a man who has worked to his bones to make a good living out of a restaurant in the former Turkish quarter of Larnaca assigned to him by his government after 1974 would be prepared to simply give it up without a fight to a Turkish Cypriot who happened to be the son of the former owner?

All these considerations, which occasionally are rehearsed by Greek Cypriots in private, but almost never in public, lead to the conclusion that as long as relations between Greek and Turkish Cypriots are bad, few refugees will venture to return to the north, dominated by the Turkish Cypriot community, administered by Turkish Cypriot officials and policed by Turkish Cypriot officers. The forcible creation of mixed villages could cause violent, and even fatal incidents, in which case neither the Greek Cypriot police in the south, nor UNFICYP could afford Greek Cypriots any protection. Therefore, in the circumstances of the protracted Cyprus conflict there appears to be no better solution to the issue of displaced Greek and Turkish Cypriots than a global exchange of homes and properties between the two communities.<sup>8</sup>

Some years ago, the argument for a global exchange of Greek and Turkish Cypriot properties was put forward by Mr Chris Economides in a study which one can now find on the Internet.<sup>9</sup> Mr Economides cites the First Protocol to the European Convention of Human Rights which states that "no one shall be deprived of his possessions", but it adds that the state can expropriate properties "in the public interest". The practice of expropriation of private property by the state to advance the public good on the basis of compensation at market value, in other words compulsory acquisition, is familiar in many modern states, including the Republic of Cyprus. If it is judged that it is in the public interest to avoid the recreation of mixed villages in the foreseeable future as such projects may cause violence and even the breakdown of public order, there is sufficient justification for effecting the expropriation of all Greek Cypriot properties in the north and of all Turkish Cypriot properties in the south, and exchanging them between the two federated states without compensation. The only exceptions to this radical solution would be churches, monasteries, mosques and cemeteries, which should continue to be owned and maintained by the respective religious authorities, and where religious celebrations will be freely allowed to take place.

Once the exchange of properties takes place, there will be little incentive for individual Greek and Turkish Cypriots to buy land for farming or investment in the other community's state. Mr Economides suggests that for an interim period of 10 to 15 years, resettlement and purchase of land in the Turkish Cypriot zone by Greek Cypriots and in the Greek Cypriot zone by Turkish Cypriots should be subject to permits by the host federated authorities. Thereafter, when relations between the

two communities will, hopefully, become harmonious, all restrictions should be abolished.

This seems an eminently reasonable proposal: the Greek Cypriots should accept the need to sacrifice rights which in a better world they would not; and the Turkish Cypriots should appreciate this move and be ready to make similar sacrifices to accommodate Greek Cypriots sensitivities.

The preceding discussion brings to the fore the point that Cyprus can only become a country in which all its citizens enjoy human rights and a civilised form of life if there is security for both communities, and for the projected federation which is expected to embrace them both. Indeed, the security aspect of the Cyprus settlement is of vital importance in itself, and the key to everything else. Without a political settlement there are no security arrangements; and without security no political settlement is worth very much. The Greek Cypriot community has long been arguing that the best form of security is the demilitarization of the island. Turkish Cypriots are unwilling to contemplate the departure of all Turkish troops, but then President Clerides did not exactly mean that, as may be gathered from the following evidence.

On 17 December 1993, two months after President Clerides and the Prime Minister of Greece Mr Andreas Papandreu signed the 'Joint Defence Doctrine', the former wrote to the UN Secretary-General Dr Ghali expressing Greek Cypriot security concerns:

There is no doubt that the massive presence of Turkish military forces in the occupied part of Cyprus creates serious anxieties and mistrust amongst the Greek Cypriot community regarding Turkish intentions. It also imposes on the Government of the Republic the need to increase the defensive capabilities of the country by purchasing arms. Further, it makes it necessary to request military help from Greece and to include Cyprus in the Greek defensive plans. There are also indications that the above preparations, though entirely defensive in their nature, are misinterpreted and cause anxiety and mistrust with the Turkish Cypriot community regarding Greek intentions.

President Clerides went on to propose that he disband the National Guard and hand over all Greek Cypriot armour cars, armour personnel vehicles and tanks to UNFICYP, and further that the Cyprus government undertake the total cost of "a substantially numerically increased UNFICYP" which will acquire the right of inspection in connection with security facilities, on condition that the Turkish side agrees to the withdrawal of the Turkish troops and the disbanding of the Turkish Cypriot armed forces.<sup>10</sup> And who will form the increased UNFICYP? The answer is implic-

it in an interview which President Clerides gave a Turkish Cypriot journalist on 1 February 1996, in which he made the following points:<sup>11</sup>

1. A revised Treaty of Guarantee will come into force under which Greece, Turkey, Great Britain and a number of additional countries will guarantee the security, territorial integrity and constitutional order of the federal republic.

2. An international force made up of contingents from the various guarantor powers (including, therefore, a Turkish contingent) will be stationed in an otherwise demilitarized Cyprus.

3. The international force will have powers (a) to ensure that no paramilitary organisations are formed and no arms are imported in Cyprus, except for arms for which there will be an agreement and which will be deemed necessary for the purposes of the police forces; and (b) to intervene on the basis of a decision by the guarantor powers taken by majority whenever the independence and territorial integrity of Cyprus face threats either from the two communities or through the violation of the constitutional order.

4. This solution has the following advantages: (a) If there is any tension in Cyprus, this will not be exported to Greece and Turkey, which as a rule take the sides of their respective communities. (b) Great Britain will no longer be in the unenviable position of being in the middle and being accused by the two sides of not fulfilling its obligations under the Treaty of Guarantee. (c) Any intervention will be carried out by an international force which will actually be stationed in Cyprus, thereby preventing any issues about invasion, occupation, withdrawal of forces etc which complicate matters. (d) Greek and Turkish contingents will continue to be stationed in Cyprus, but they will form part of an international force, and so any involvement or suspicion or allegation concerning chauvinist activities in their respective communities will be dealt with convincingly.

President Clerides added that "since we wish to accede to the European Union, the guarantor powers should come from the EU and other countries". He indicated elsewhere that he would agree to the Greek and Turkish contingents manned by about 1,000 troops each. The Turkish Cypriot side prefers the continuation of something like the old Treaty of Alliance, even though it wants about 5,000 troops from each of the 'Mother Countries' to be stationed. A compromise between these two positions does not seem difficult. What is more difficult is to formulate the terms under which the peacekeeping or guarantor force can take action. At present UNFICYP soldiers will only shoot in self-defence. Is President Clerides, and also troop-contributing countries, willing to agree that the peacekeepers would be authorized to use force to stop attacks by armed irregulars of one community against civilians

of the other? And would there be circumstances in which the Greek or the Turkish contingent would be permitted to go into action on their own? In the mid-1980s, President Clerides, then in opposition, suggested that if there is information or an allegation about a breach of security, then the UN Security Council will send to Cyprus a fact-finding team. If the team establishes that there is such a breach, the Security Council should undertake effective measures. If, and only if, this body proves unable to agree on concrete measures to remedy the situation, the national contingent of Greece or Turkey will be able to go into action. This is not a very satisfactory arrangement, but it recognizes the fact that if there are violent incidents like those which took place in 1963-64 and 1967, Turkish troops will anyway go to protect their kith and kin, whatever the terms of the new Treaty of Guarantee.

We come finally to the proposals of the 'Set of Ideas' coming under the heading of Economic **Development and Safeguards**. The reason they are considered last is that they contain a reference to the most intractable aspect of a Cyprus settlement: Cyprus's membership of the European Union. This section begins, reasonably enough, by stating that a priority of the federal republic will be the development of a balanced economy that will benefit equally both federated states. A major programme of action will be established to correct the economic imbalance and ensure economic equilibrium between the two communities through special measures to promote the development of the federated state administered by the Turkish Cypriot community.

The section proceeds to outline proposals for giving a boost to the Turkish Cypriot economy, and ends up by suggesting that matters related to the membership of the federal republic in the European Economic Community [sic] will be discussed and agreed to, and will be submitted for the approval of the two communities in separate referendums.

The Greek Cypriot side had long expressed its willingness to offer all possible help to the Turkish Cypriots to bring their economy to the same level as theirs. The controversy between the two sides arose out of their divergent views concerning Cyprus's EU accession. The Greek Cypriot position was stated by President Vassiliou as follows: "...The separate referendums...on matters related to the membership of the federal republic in the European Community should form part of, and be conducted at the same time as, the separate referendums on the overall framework agreement..." In other words, the endorsement by the two communities of a settlement package will have to include an endorsement of application which the government of Cyprus made in 1990 for accession to the European Community (as was then).

The Turkish Cypriot side was at the time and for many years subsequently

adamant in its opposition to the federation joining Europe before Turkey does the same thing. The Turkish Cypriots claimed to base their position on an article of the Cyprus Constitution of 1960, but this argument did not impress anyone but themselves and their one-sidedly committed foreign friends. With the passage of time, the authorities of the TRNC and the Turkish government were dismayed to realize that their legalistic arguments carried no conviction with the EU countries. When President Clerides came to power in 1993, he intensified his drive for EU accession, and he was persuaded by European governments, as well as the Americans, that Cyprus's EU accession would act as a catalyst for a Cyprus settlement. However, Greek Cypriot successes in Brussels only served to harden the official Turkish and Turkish Cypriot line, which now threatened to carry an economic and political integration of the TRNC and Turkey.

Given that Greek and Turkish Cypriots have different ideas about what would be a just settlement, and further that they both have to agree on a settlement package before Cyprus can re-form or re-invent itself as a (relatively) united, bizonal, bicomunal federation, is it possible for the two communities to achieve such a settlement which each of them will consider to be really and truly just? This is no more possible than squaring the circle. The next best thing is for the two sides to abandon their arrogance and self-righteousness, recognize the limitations of their power and influence over the other community, try to understand the legitimate interests and concerns of the other community, and in the light of these factors proceed with the help of the international community to elaborate a compromise settlement. The 'Set of Ideas' represents the considered view of the international community as to what would be a fair and balanced compromise. Any such compromise can only be put into effect and sustained if the traditional ideas of Hellenism and Turkish nationalism are marginalised, and a new Cyprus-centred outlook is developed among Greek and Turkish Cypriots which respects ethnic autonomy and cherishes cultural diversity in a common federal homeland. If the Greek Cypriots accept the Turkish Cypriot desire to have their own cultural 'space' in Cyprus, if Turkish Cypriots accept the Greek Cypriot desire to place the whole of Cyprus within the wider space of the EU, and further if Greece and Turkey agree the work in good faith to solve their differences, in Cyprus and elsewhere, by peaceful means - all big ifs - then there is hope for honourable and lasting settlement in Cyprus.<sup>12</sup>

### Notes

1. Mr Chris Economides pointed out in his study 'Cyprus Problem Solution Prospects' that Mr Denktash appears to have copied this formula from the first half of Article 3 of the Swiss Constitution, which reads as follows: "The cantons are sovereign insofar as their sovereignty is not limited by the federal constitution and as such, exercise all rights which are not entrusted to the federal power." Mr

Economides's paper may be found on the internet at the following web site:  
<http://www.cytanet.com.cy/cyprus-problem/>.

2. I take my figures from Mr Chris Economides's study 'Cyprus Problem Solution Prospects', to which I acknowledge my indebtedness.

3. Some elements in this proposal were suggested to me by a prominent Turkish Cypriot businessman.

4. The proposals which the Greek Cypriot National Council put forward in 1989 (at a time when the New Horizons party had not yet been founded) provide that the Turkish Cypriots will form a 'substantial' majority in the north.

5. Tens of thousands of displaced Greek Cypriot families received within the first few years after 1974 (a) Turkish Cypriot houses and land in the south abandoned by their owners, or (b) houses in refugee estates built by the Cyprus government on land belonging to the state or to Turkish Cypriots who had fled to the north, or (c) state land together with a government grant to build their own houses etc. It will not be always easy to evaluate claims for loss of house and property received under one of the various schemes in operation.

6. Paragraph 31, *Report of the UN Secretary-General on his Mission of Good Offices in Cyprus* (21 August 1992).

7. This illustrative example is based on a number of actual cases known to me, which appear to be typical. A number of surveys were carried out to establish whether refugees would want to return to their former homes under Turkish Cypriot authorities; the result was that only between 20 and 30 per cent of those asked would want to do so.

8. The idea of a long lease of Greek Cypriot properties to their current Turkish Cypriot occupiers, once contemplated by President Vassiliou, is foreign to Cypriot financial and commercial practices. What would be the practical sense of telling a Greek Cypriot that his house in Kyrenia has not been expropriated, it is still his property, but he *must* lease it to the current Turkish occupier for 99, or even just 19 years?

9. See footnote 1, above.

10. President Cleride's letter to Dr Boutros Ghali was published by the Cyprus government's Press and Information Office.

11. The interview was given to Mr Suleyman Erguclu of *Kibris* newspaper. The Cyprus Press and Information Office published a Greek translation of the interview, from which I take the main points on security.

12. Some of the ideas in this article are summarized in the last section of my paper 'Greek Cypriot Perceptions', included in *Cyprus: the Need for New Perspectives*, edited by C.H. Dodd.



# CYPRUS AND THE EU: SEARCHING FOR A SETTLEMENT IN THE LIGHT OF ACCESSION

Joseph S. Joseph

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## Abstract

*This article explores the search for a settlement of the Cyprus problem and the prospects of Cyprus joining the EU and becoming part of "the process of creating an ever closer union among the peoples of Europe." The presentation and analysis of issues revolves around two principal questions: first, why so many efforts, carried out by the UN or in the name of the UN have failed to solve the problem? And second, can the EU and Cyprus's prospects of joining the Union help in the search for a settlement on Cyprus? It is argued that the EU, which has repeatedly expressed its concern over the lack of a settlement on the island, is now in a unique position to play a role in bringing about permanent peace and stability on Cyprus and in the region. With Cyprus's accession, the institutions, legal order, principles and policies of the EU - the *acquis communautaire* - can provide a conducive framework in the search for a long overdue political settlement on Cyprus. In other words, the European integration process can be used as an instrument for conflict resolution. An underlying assumption is that a political settlement of the Cyprus problem has the potential of producing only winners. If a solution is combined with accession of Cyprus to the EU, the benefits will increase considerably for all parties involved in Cyprus or concerned over peace and security in the Eastern Mediterranean.*

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## Introduction

In recent decades, many efforts have been made to resolve the Cyprus problem, but all of them have failed. The island continues to be a microstate in a state of no peace no war. Since 1974, following the Turkish invasion, Cyprus has also been a de facto divided island. So far, the efforts to reach a settlement were carried out mainly by the UN or in the name of the UN. But recently, the prospects of Cyprus joining the European Union (EU) have created a new momentum and conditions favourable for a more substantive and constructive European involvement.

While accession negotiations are underway and Cyprus is preparing to become a full member of the EU, efforts to reach a political settlement on the island are intensifying, with the UN, the EU and the United States making a concerted effort to break the impasse. This article argues that the prospect of Cyprus joining the EU presents a golden opportunity for finding a political settlement on the island. The EU, which has repeatedly expressed its concern over the lack of a settlement is now in a unique position to play a role in bringing about permanent peace and stability on the Mediterranean island. Accession has the potential of acting as a catalyst in finding a long overdue settlement that will reunite the de facto divided island and enable its entire population to participate in the European integration process.

This paper explores both the nature of the Cyprus problem and the prospects of Cyprus joining the EU and becoming part of "the process of creating an ever closer union among the peoples of Europe."<sup>1</sup> The presentation and analysis of issues revolve around three principal questions: first, what is the Cyprus problem and what are the issues to be resolved. Second, why so many efforts, carried out by the UN or in the name of the UN, have failed to solve the problem? And third, can the EU and Cyprus's prospects of joining the Union help in the search for a settlement on Cyprus?

### **Early Signs of Trouble in the 1960s**

In broad terms, the post-colonial problem of Cyprus can be divided into two phases. The first one covers the period from 1960 to 1974, and the second one the period from 1974 to the present.

During the first phase, from the establishment of the Republic of Cyprus in 1960 (especially after 1963) until 1974, the problem was basically an internal dispute between the Greek Cypriots and the Turkish Cypriots in which external powers became involved. Difficulties which could lead to a domestic dispute were, to a good extent, inherent in the state-building process and the bicomunal character of the Cypriot society. These difficulties turned into insurmountable problems because of external intervention, the different ethnopolitical orientations the two communities had at the time and the awkward provisions of the 1960 settlement of the colonial problem under the London and Zurich settlement.<sup>2</sup>

Without going into details, it is worth mentioning that some of the provisions of the 1960 constitution were not only awkward and unworkable, but also rigid and unalterable.<sup>3</sup> The constitution prohibited amendment of its basic provisions, thus excluding any adaptation or evolutionary political process through which the two communities could negotiate, adjust their positions, and seek common ground to bridge their differences. For this reason, it has been characterized "a constitution-

al oddity"<sup>4</sup> and "a constitutional straitjacket precluding that adaptation essential to the growth and survival of any body politic."<sup>5</sup> Lack of experience in self-government, conflicting ethnopolitical goals, mistrust, and a shared sense of insecurity were additional sources of ethnic misunderstanding and friction that led to open confrontation.

In essence, and in somewhat simplistic terms, the problem and the challenge for Cyprus right after the declaration of independence was the building of an operational state. The two communities by failing to build a working state - a task next to impossible under the 1960 settlement of the colonial problem - fell into the trap of confrontational tactics and mutual blame-casting. All the rest, including fighting, gradual segregation, further complications and external involvement followed almost naturally. The London and Zurich provisions were there to complete the vicious circle. The sequence of events was neither pleasant nor justified. It was as vicious as it was unjustified.

#### **External Involvement in the 1960s**

In the 1960s, confrontation between Greece and Turkey over Cyprus, as well as the wider Greek-Turkish antagonism, became an additional dimension and, in a way, an additional factor in the Cyprus problem which could only complicate more the situation. Britain, the former colonial power, became also involved in an effort to protect its interests. Also, it cannot go unnoticed that the two superpowers - the United States and the Soviet Union at the time - became involved at the political level. Superpower involvement was another source of complication. It put the island on the list of peripheral points of superpower friction.<sup>6</sup>

As it turned out, the local ethnic conflict *over* state-building, became entangled in the web of regional, ideological, political and military considerations of external powers. Things could not be worse for the newborn Republic of Cyprus. By 1974, the problem was in a state of stagnation, basically consisting of the clashing claims and concerns of the two local communities, the two "motherlands" (Greece and Turkey), Britain and the two superpowers.

#### **The Greek *Coup D' Etat* and the Turkish Invasion of 1974**

Since 1974, the problem has entered a new phase with the nature of the problem changing drastically. Following the *coup d' etat* which was staged against President Makarios by the Greek military regime, and the subsequent Turkish invasion of the island, new elements were added to the problem without removing old ones. The forced movement and exchange of population, which led to ethnic segregation, have been widening the gap between the two communities and under-

mining efforts and prospects for reunification. The de facto division of the island and the military occupation of its northern part by Turkey have been the new dominant elements and parameters of the problem since 1974. But, as it was mentioned earlier, besides the problem of foreign occupation, we still have the initial problem and challenge of the 1960s, i.e., the building of a working Cypriot state.

The problem of establishing a viable state for all Cypriots has been further complicated by the unilateral declaration of independence by the Turkish Cypriot leadership in 1983.<sup>7</sup> Although the unilateral declaration has been deplored as legally invalid by the UN and other international organizations, and no other country besides Turkey has recognized the self-proclaimed "Turkish Republic of Northern Cyprus", the fact remains that one side has been putting more priority on secession and the creation of a second state on the island rather than on the efforts to settle the problem on the basis of a single state with a bizonal and bicomunal federal political system.<sup>8</sup> This has been a serious setback in the efforts to reach a settlement because it raises questions as to whether there is political will on the Turkish side to seek and accept a settlement based on a unified federal Cyprus. Obviously, it is not easy to resolve a dispute in which the parties involved have diametrically different positions and their goals are mutually exclusive. Looking at the efforts of the Turkish side to secure recognition for a separate state in the northern part of the island, one can easily get the impression that there is no minimum goal shared by the two sides. Despite the rhetoric and the lip service paid to a settlement that would reunite the island as a federal state, secessionist forces on the Turkish side have been working to keep the island divided and the people segregated along ethnic lines.

### **The UN "Failure on Cyprus"**

Under these circumstances, it is not surprising that no progress has been made so far in the search for a settlement. Most of these efforts were made by the UN, or in the name of the UN, but all of them have failed.

With regard to the "UN failure" on Cyprus, some clarifications are needed. Although all UN efforts have failed, blaming the UN for failure on Cyprus is an unfair oversimplification. The UN is nothing else than a microcosm and a reflection of the real world which has many problems and few solutions, or no solutions at all in some cases. As an institutional arrangement through which countries interact, the UN has no power of its own and cannot do anything that countries are not willing or determined to do. The UN can be efficient only if the parties involved or those who can play a constructive role, especially the powerful ones, have the political will and commitment to do so and find solutions. In the case of Cyprus, this has not been the case. As it has been aptly and repeatedly stated, Cyprus is not Kuwait.<sup>9</sup>

The UN Secretary-General was right in pointing out in one of his reports to the Security Council, that no solution can be found and the status quo is unlikely "to change on an agreed basis as long as there is, both on the island and in the region, a lack of political will for such change."<sup>10</sup> In the same report, he went on to point the finger in the direction where he thinks more has to be done in order to bridge the gap and reach a settlement. He became as specific as he could by talking about "an already familiar scenario: the absence of agreement due essentially to the lack of political will on the Turkish Cypriot side."<sup>11</sup> It is, however, fair to assume that the Secretary-General knows, like everybody else, that the policies and positions of the Turkish Cypriot leadership are shaped in Ankara.

### **The 1977 High Level Agreements**

Although all UN efforts have failed and no settlement has been reached so far, the continuing de facto division of the island, which was brought about by force, has not gained legitimacy and nobody considers it a solution. Therefore, there is still hope for a negotiated settlement of a unified bizonal federal republic on the basis of the high level agreements of 1977 and 1979. It should be noted that these agreements are of particular importance because, for the first time, the two communities agreed to seek a settlement on the basis of a bizonal bicomunal federal republic. The first agreement was reached between Makarios and Denktash on 12 February 1977 and its main points were the following:

- 1. Establishment of a bicomunal Federal Republic.*
- 2. The territory under the administration of each community should be discussed in the light of economic viability or productivity and land ownership.*
- 3. Questions of principle, like freedom of movement, freedom of settlement, the right of property and other specific matters, are open for discussion, taking into consideration the fundamental basis of a bicomunal federal system and certain practical difficulties which may arise for the Turkish Cypriot community.*
- 4. The powers and functions of the central federal government will be such as to safeguard the unity of the country, having regard to the bicomunal character of the State.*

The second high level agreement was reached between Kyprianou and Denktash on 19 May 1979 and basically reconfirmed the 1977 Makarios-Denktash agreement.<sup>12</sup>

The high level agreements continue to this day to provide the basic guidelines in the search for a settlement on Cyprus.

### **The European Orientation of Cyprus**

Today Cyprus is at the threshold of the European Union and preparing to become a full member. Following a decision by the European Council meeting in Luxembourg (12-13 December 1997) accession negotiations began on 30 March 1998. The commencement of accession negotiations was the culmination of a long and healthy relationship which goes back to 1972 when an Association Agreement was signed between Cyprus and the EEC.<sup>13</sup>

It is, however, worth noting that for the first time in 1962 Cyprus expressed an interest in becoming an associate member of what was then the European Economic Community (EEC). This early expression of interest was largely the result of Britain's first application for membership of the EEC. The heavy dependence of the Cyprus economy on exports to Britain and the prospect of losing the preferential Commonwealth tariff rate prompted the Cyprus Government to seek an institutionalized arrangement with the EEC. Following the withdrawal of the British application in 1963, Cyprus's interest remained dormant until 1971 when it was reactivated almost simultaneously with the renewed efforts of Britain to join the EEC.

The Association Agreement between Cyprus and the EEC provided for the gradual elimination of trade obstacles for industrial and agricultural products between Cyprus and the EEC. The elimination of customs and other restrictions on trade would lead to a customs union after a ten-year transitional period that was divided into two successive stages. The first stage would be completed by June 1977 and the second stage five years later.

The Turkish invasion of Cyprus in 1974, however, and its disastrous consequences for the economy of the island led to a delay in implementation of the Association Agreement. After successive extensions of the first stage, a Protocol for the implementation of the second stage of the Association Agreement was signed in 1987.<sup>14</sup> It laid down the terms for the gradual establishment of a customs union.

Under the Protocol, the customs union will be implemented by the year 2001 or 2002 at the latest. Both Cyprus and the EU are required to eliminate all tariff and quantitative restrictions on all manufactured goods and a number of agricultural products (mainly potatoes, citrus and other fruit, vegetables and wine). By 1997 Cyprus had adopted the common customs tariff of the EU.

### Application for Membership

The close relationship established between Cyprus and the EC with the signing of the 1987 customs union agreement, coupled with other developments in Europe and the EC, encouraged the Government of Cyprus to apply for full membership in the Community in 1990.<sup>15</sup> This was, of course, facilitated by the impressive bouncing back of the Cypriot economy from the setback caused by the Turkish invasion and occupation.

Three years later, on 30 June 1993, the European Commission issued its *Opinion* on Cyprus's application, confirming the island's European character and vocation and concluding that it was eligible to be part of the Community. The *Opinion*, however, pointed out that there were some problems resulting from the de facto division of the island which needed to be addressed. It noted in particular that

*the fundamental freedoms laid down by the [EEC] Treaty, and in particular freedom of movement of goods, people, services and capital, right of establishment and the universally recognized political, economic, social and cultural rights could not today be exercised over the entirety of the island's territory. These freedoms and rights would have to be guaranteed as part of a comprehensive settlement restoring constitutional arrangements covering the whole of the Republic of Cyprus.*<sup>16</sup>

On 4 October 1993, the Council endorsed the *Opinion* and welcomed its positive message, reconfirming that Cyprus is eligible to become a member. The Council also supported the Commission's proposal for close cooperation with the Cypriot Government in order to facilitate the economic, social, and political transition aiming at eventual integration of the island into the EU. To this end, the Council invited the Commission to "open substantive discussions forthwith with the Government of Cyprus to help it to prepare for the accession negotiations to follow later on under the best possible conditions."<sup>17</sup>

On 26 November 1993, substantive talks between the Commission and the Government of Cyprus started and continued until 1995 when they were successfully completed.<sup>18</sup> The substantive talks, which were conducted primarily at the technocratic level, covered a broad range of issues and their primary objective was to help the Cypriot authorities familiarize themselves with all the elements of the *acquis communautaire* and help Cyprus harmonize its legislation and policies with those of the Union.<sup>19</sup>

In June 1994, the European Council at Corfu, where Cyprus-EU relations were examined, concluded that an essential stage in Cyprus's preparations for accession

could be regarded as completed and that the next phase of enlargement of the EU would include Cyprus. This was confirmed by the European Council at its meetings at Essen (December 1994), Cannes (June 1995), Madrid (December 1995) and Florence (June 1996). At Cannes, it was also reaffirmed "that negotiations on the accession of Malta and Cyprus to the Union will begin on the basis of Commission proposals, six months after the conclusion of the 1996 Intergovernmental Conference and taking the outcome of that Conference into account."<sup>20</sup> It is also interesting to note that at the European Council meeting at Madrid, it was decided that Cyprus, together with the associated countries of Central and Eastern Europe, "will be briefed regularly on the progress of discussions [at the Intergovernmental Conference] and will be able to put their points of view at meetings with the Presidency of the European Union."<sup>21</sup> The Intergovernmental Conference which started in March 1996 was completed with the signing of the Amsterdam Treaty on 2 October 1997.

In the meantime, at the meeting of the Council of General Affairs on 6 March 1995, and at the 19th meeting of the Cyprus-EU Association Council on 12 June 1995, it was decided that a pre-accession structured dialogue at various levels would be established between Cyprus and the EU. Parenthetically, it should be mentioned that at the March meeting, Greece lifted its veto and agreed on a customs union established between the EU and Turkey beginning 1 January 1996. At the same meeting, Greece also lifted its veto and allowed for the implementation of the Fourth EU-Turkey Financial Protocol which provided for considerable financial aid to Turkey.

According to the resolution which was adopted at the Association Council meeting in June 1995,

*the purpose of the [structured] dialogue will be to help to achieve the objective of Cyprus's accession, which both parties consider will benefit both of the island's communities and contribute to civil peace and reconciliation. In this connection the Council hereby renews the invitation made to the Commission to establish the necessary contacts with the Turkish Cypriot Community, in consultation with the Government of Cyprus, which will remain the European Union's sole interlocutor in the structured dialogue.*

It is also worth mentioning that, in *Agenda 2000*, the Commission Communication which was issued on 15 July 1997, and "outlines in a single framework the broad perspectives for the development of the Union and its policies beyond the turn of the century,"<sup>22</sup> it was reconfirmed that accession negotiations with Cyprus would start six months after the conclusion of the Intergovernmental Conference. *Agenda 2000* also stated that "the timetable agreed for accession



negotiations to start with Cyprus means that they could also start before a political settlement is reached."<sup>23</sup> It was also stated that "if progress towards a settlement is not made before the negotiations are due to begin, they should be opened with the Government of the Republic of Cyprus, as the only authority recognized by international law."<sup>24</sup> Indeed, following the decision of the European Council in Luxembourg in December 1997, accession negotiations began on 30 March 1998, without the participation of the Turkish Cypriots.<sup>25</sup> It should be noted, however, that the Government of Cyprus and the EU made intensive efforts to include a Turkish Cypriot delegation on the negotiating team but the Turkish Cypriots refused to participate.

Following the initial launching of accession negotiations in March 1998, bilateral intergovernmental conferences were convened "to begin negotiations with Cyprus, Hungary, Poland, Estonia, the Czech Republic and Slovenia."<sup>26</sup>

The European Council meeting in Luxembourg also discussed the Cyprus problem and stated its position on the issue as follows:

*The accession of Cyprus should benefit all communities and help to bring about civil peace and reconciliation. The accession negotiations will contribute positively to the search for a political solution to the Cyprus problem through the talks under the aegis of the United Nations which must continue with a view to creating a bi-communal, bi-zonal federation. In this context, the European Council requests that the willingness of the Government of Cyprus to include representatives of the Turkish Cypriot community in the accession negotiating delegation be acted upon. In order for the request to be acted upon, the necessary contacts will be undertaken by the Presidency and the Commission.<sup>27</sup>*

Accession negotiations are now underway and the European Council meeting in Vienna in December 1998 "noted with satisfaction that the accession conferences with Cyprus, Hungary, Poland, Estonia, the Czech Republic and Slovenia have entered into substantive negotiations and reached the first concrete results."<sup>28</sup>

### **Facing the Challenge of Accession**

The above presentation of major developments in Cyprus-EU relations shows that Cyprus is on its way to becoming a member of the EU and facing one of the biggest challenges it has been presented with since independence. Joining the fifteen-member European Club is a challenge entailing both privileges and burdens which the eastern Mediterranean island seems ready and able to face successfully.

Any country that seeks membership to the EU must meet several conditions and

criteria.<sup>29</sup> Among these are the European identity, democratic institutions, respect for human rights, protection of minorities, open market economy, satisfactory level of economic development, and the ability to adopt the *acquis communautaire*, including the Maastricht Treaty (and eventually the Amsterdam Treaty when it comes into effect).

The Republic of Cyprus has no problem in meeting any and all of these conditions. This has been confirmed by the *Opinion* of the Commission which clearly stated that the Community considers Cyprus eligible for membership although reference is made to the need for a settlement of the political problem. The *Opinion* was clear in stating that "the Commission feels that a positive signal should be sent to the authorities and the people of Cyprus confirming that the Community considers Cyprus as eligible for membership."<sup>30</sup> It was also stated in the Opinion "that Cyprus's integration with the Community implies a peaceful, balanced and lasting settlement of the Cyprus question."<sup>31</sup> This, however, seems no longer to be exactly the position of the EU in the light of repeated decisions of the European Council which confirm that Cyprus will be included in the next phase of enlargement and accession negotiations are already underway. In these summit decisions, no reference is made and no link is implied between accession and settlement, although as stated in *Agenda 2000*, "agreement on a political settlement would permit a faster conclusion of the [accession] negotiations."<sup>32</sup>

As far as European identity and vocation is concerned, there is no doubt that historically and culturally Cyprus is an inalienable part of Europe. All aspects of life on the island - political, economic, social, and cultural - are based on and reflect its European heritage, values and orientation. This is nowhere else stated as clearly as in the *Opinion* of the Commission which points out the following:

*Cyprus's geographical position, the deep-lying bonds which, for two thousand years, have located the island at the very fount of European culture and civilization, the intensity of the European influence apparent in the values shared by the people of Cyprus and in the conduct of the cultural, political, economic and social life of its citizens, the wealth of its contacts of every kind with the Community, all these confer on Cyprus, beyond all doubt, its European identity and character and confirm its vocation to belong to the Community.*<sup>33</sup>

When it comes to democracy and human rights, Cyprus subscribes to the same fundamental principles and values as the EU and its member states. This is evidenced by the stable democratic multi-party system of government which guarantees an open and fair political process to individuals and organized groups. The political parties on the island represent and reflect a broad range of views and positions covering the entire ideological spectrum. It can also be stated that one of the

main characteristics of the political culture of the island is the overarching loyalty and commitment to democracy shared by all political forces. This commitment reflects a firm popular belief that only democratic societies based on pluralism, respect for human rights, and the rule of law can protect and promote freedom, justice, and social progress.

Cyprus is also known for its open and efficient economic system which is based on a commitment to the concept and principles of market economy with free competition. The island enjoys a stable and high rate of economic growth which compares favourably with that of EU member states. It cannot go unnoticed that Cyprus meets almost all the economic criteria which EU countries must meet before they can join the Economic and Monetary Union (EMU). Unemployment is negligible and foreign labour is imported to cover shortages in some sectors, like tourism and construction. The inflation rate is low (about 3% in 1998) and within acceptable range. The budget deficit is about 3% of the GDP and under control. Public debt is about 60% of the GDP and under control too.<sup>34</sup> The Government of Cyprus is also in the process of liberalising interest rates and bringing relevant legislation and policies in line with EU laws and practices. It should also be noted that Cyprus for a few years now has unilaterally tied its currency to the European Currency Unit (ECU) while more than half of its foreign trade, both imports and exports, is conducted with the EU.

With regard to adopting the *acquis communautaire*, including the Maastricht Treaty (and eventually the Amsterdam Treaty when it comes into force), Cyprus is in a position to do that without any major difficulties.<sup>35</sup> A problem-free accession to the EU is also guaranteed by the fact that the Eurocentric foreign policy followed by Cyprus since the collapse of the former Soviet Union and the subsequent end of the Cold War and the weakening of the Non-Aligned Movement (NAM) enjoys an overwhelming support at home.<sup>36</sup> Pro-European feelings are very strong among an extremely high percentage of the population who have a strong sense of belonging to Europe and believe that the future of a united, secure and prosperous Cyprus lies in its accession to the EU. This is also a view shared by all political parties.

### **Cyprus can make a Contribution**

Accession to the EU is a two-way relationship. Cyprus has a lot to gain from it, but it can also make a contribution in the creation of a united Europe that will enjoy prosperity and security. The geographic location of the island is of considerable symbolic as well as substantive significance as it constitutes Europe's last outpost in the eastern Mediterranean. Because of its strategic position, Cyprus can make a contribution in the creation of a European security system that will safeguard the defense and security interests of the EU in the region.

It should also be pointed out that Cyprus has excellent relations with all the countries of the Middle East, except Turkey. In this regard, it can become an economic, political, and cultural link between the EU and that important geopolitical region. As a member of the EU, Cyprus could serve as a bridge for peaceful cooperation among the peoples of Europe, the Mediterranean basin, and the Middle East.

Along the same lines, it can be added that Cyprus has already been chosen by many multinational firms as a location for their regional headquarters. The same is true for several thousand off-shore companies which have established offices on the island to promote their business activities in the region. For many of these firms, Cyprus was an obvious choice because of its location, the availability of highly educated managerial and technical staff, the excellent transportation and communication networks, and other infrastructure including a legal system based on internationally accepted principles of jurisprudence. These assets will be in the direct service of the common and shared interests of the EU and its member states upon Cyprus's accession.

### **The European Union and the Cyprus Problem**

In the light of repeated decisions of the European Council and other organs of the EU, it can be argued that a final and comprehensive settlement of the Cyprus problem is not a precondition for Cyprus's accession to the EU. It is, however, imperative for all parties involved to do their best to reach a settlement that will facilitate accession. Apparently, Turkey can play a crucial role and make a difference in the search for a settlement. This was aptly put by the European Council at its Dublin meeting in December 1996 when it "urged Turkey to use its influence to contribute to a solution in Cyprus in accordance with UN Security Council Resolutions."<sup>37</sup> More recently, in September 1997, the European Parliament adopted a resolution on Cyprus "calling on the Union and on all member states to maintain firm pressure on Turkey to contribute positively to a just solution of the Cyprus problem and to ensure that they facilitate the commencement of accession negotiations with Cyprus by the beginning of 1998."<sup>38</sup>

The EU has always been a staunch supporter of UN efforts and initiatives on Cyprus. It has also taken the clear and firm position that the present status quo is unacceptable. This position was clearly stated on numerous occasions including statements issued by the European Political Cooperation and resolutions adopted by the European Council, the European Parliament and other organs of the Union.

The EU favours a settlement based on the UN resolutions and the 1977 and 1979 high-level agreements. Such a settlement will respect the sovereignty, independence, territorial integrity and unity of a bizonal, bicomunal, federal republic.

It will also guarantee the civil, political, economic and cultural rights of all Cypriots without any restriction or discrimination. The security of all Cypriots in each and every respect - and not only in military terms - must also be guaranteed through institutionalized arrangements that go beyond Cyprus and beyond Greece and Turkey. The European context appears to be a promising one in that respect.

In recent years, the European interest in promoting a settlement became more manifest with the appointment of EU representatives to monitor developments on Cyprus. In February 1994, Serge Abou, a high ranking official of the Commission, was appointed as observer by the Council to follow developments and report on any progress toward a settlement.<sup>39</sup> He submitted three reports which confirmed the lack of any progress. In his last report, which was submitted in January 1995, he suggested that the EU has a role to play in Cyprus. In his words, "the [intercommunal] talks have also shown that the issue of Cyprus's membership of the EU is now fixed in the minds of all those concerned, something which obviously gives the EU a particular responsibility, namely to flesh out the position adopted by the Corfu European Council on the accession process and to play an active part in efforts to find a solution to the Cyprus problem."<sup>40</sup> This was basically the conclusion of the European observer who also noted that the increasing militarization of the island is a "dangerous development."<sup>41</sup> In his words, "the main indicator of the heightened tension in Cyprus is the military build-up on both sides of the buffer zone - and at a time when the strength of UN forces is being cut back."<sup>42</sup> He also noted that the feeling-of discouragement among the population at large on both sides of the buffer zone engendered by the gloomy outlook for a settlement is being expressed in a mounting tide of nationalist rhetoric on both sides."<sup>43</sup> The European observer completed his mandate in 1995 without reporting any progress and without generating a new momentum.

A subsequent expression of EU interest in the Cyprus problem came with the appointment by the Council, on 29 January 1996, of a representative of the Italian presidency to monitor developments concerning the Cyprus peace process. Six months later, at the end of the Italian presidency, the Italian diplomat Federico Di Roberto, had nothing new, substantive or promising to report.

The Irish representative, Ambassador Kester Heaslip, who succeeded Di Roberto, was not luckier. He monitored developments under the EU presidencies of Ireland, The Netherlands and Luxembourg (July 1996 - December 1997), but no progress was made.

Under the British and Austrian presidencies (first and second half of 1998) it was the turn of the British veteran diplomat Sir David Hannay to try his hand on Cyprus as representative of the EU. He could not and did not accomplish anything besides

reconfirming the impasse. The same happened with Detlev Graf zu Rantzau, the German *envoy* of the EU presidency (first half of 1999). After completing several rounds of contacts on the island in March 1999, Rantzau could only say that he is "not optimistic at all" and that he has "not been able to detect on either side a new flexibility or readiness to enter into a compromise."<sup>44</sup>

Today (Fall 1999) the Finnish presidency of the EU is having hard time trying to find common ground and generate a new momentum for a negotiated settlement on the island.

#### **Time for a Political Settlement**

As accession negotiations are continuing and Cyprus is preparing to join the EU, more and more views are converging that the time has come for a long overdue settlement. The challenge and the opportunity is knocking at the door of all those involved and concerned. The EU, in cooperation with other actors, is in a unique position to play a role in Cyprus and in the region.

The parties involved or concerned are either part of, or have special relations with the EU and can, therefore, appreciate and support a European contribution or initiative on Cyprus. Greece is a member of the EU while Turkey is as close to the EU as a non-member state can be with the establishment of a customs union. Britain, a major partner in the EU and a guarantor power of the independence and unity of Cyprus under the 1960 settlement of the colonial issue, is in a privileged position to play a constructive role within and outside the EU context. The Greek Cypriots and the Turkish Cypriots are faced with a unique challenge and opportunity to resolve their differences, reunite their island, and become part of the European integration process that will offer them the security and stability they have been longing for.

The institutions, legal order, principles and policies of the EU - *the acquis communautaire* - can provide a conducive framework (and more) in the search for a long overdue political settlement on Cyprus. In fact, settlement and accession can go hand in hand and reinforce and supplement each other. In sum, the prospect of Cyprus's accession to the EU provides a unique opportunity for all parties concerned to rise to the occasion and show their commitment to the principles and values that are as vital to individual countries and their peoples as they are to the EU and the European family of nations.

A solution to the Cyprus problem, however, cannot be an abstract construction. Any settlement should meet the basic needs of the whole population and the requirements of a just, viable, functional and lasting solution. Such a solution, by

definition, will have no room for occupation forces or the permanent stationing of foreign armies.

Under the circumstances, a settlement based on a bizonal and bicomunal form of federation seems to be reasonable, feasible and viable - assuming of course that all citizens will enjoy universally accepted rights and opportunities all over the island. Given the realities of Cyprus - geography, economy, size, distribution of natural resources, demography, and the political failures of the past - a federal solution seems to be the only pragmatic way out of the stalemate.

Such a solution will be more appealing if it meets the requirements of the *acquis communautaire*, and its implementation precedes or coincides with Cyprus's accession to the EU. This scenario by itself, however, cannot be a magic formula unless it has substantive and substantial support from all parties involved and concerned. The Cypriots themselves, especially the Turkish Cypriot leadership, should realize that a remedy to their problems can be sought through pacific means, evolutionary peaceful change, political and administrative adjustments, renovation of political thinking and the cultivation of conciliatory attitudes. Certainly, the entire population will be better off if the island ceases to be a place of arms and confrontation, and the present status quo is replaced by a meaningful political order that will allow the two communities to co-exist in peace under conditions of stability and security.

The forthcoming accession of Cyprus to the EU can be an excellent opportunity for all parties involved to work out their differences and benefit from the constructive support that third parties can offer. The *acquis communautaire* can provide a useful framework and guidelines for solving the Cyprus problem, reuniting the island and enabling its people to join the European integration process.

In conclusion, it can be argued that a settlement of the Cyprus problem will benefit all parties involved. Especially Greece and Turkey, will benefit greatly from a settlement on Cyprus that will enable them to focus on their domestic and bilateral problems. Turkey, in particular, with the withdrawal of its occupation forces from the island will get rid of the stigma of the occupying power, improve its credibility and be in a better position to talk with and be understood by the Europeans. In this regard, the next enlargement of the EU can provide an opportunity for the parties involved in or concerned over Cyprus to have a fresh look at the problems plaguing the island and the region.

**Notes**

1 Treaty on the European Union, article A.

2 The London and Zurich agreements consisted of a series of treaties which laid the foundations of the political structure of the Republic of Cyprus. These treaties were the treaty of establishment, the treaty of alliance, the treaty of guarantee, and the agreement on the basic structure of the Republic of Cyprus which contained the key provisions of the constitution. The treaties went into effect on 16 August 1960 when Cyprus became independent.

3 The issue of the workability of the London and Zurich settlement and the constitution has attracted considerable attention among scholars and political analysts. See, for example, the following works with indicative titles: Xydis, Stephen (1973) *Cyprus: Reluctant Republic* The Hague: Mouton, and Adams, Thomas W. (1966) "The First Republic of Cyprus: A Review of an Unworkable Constitution," *The Western Political Quarterly*, vol.19, pp. 475-90.

4 This characterization belongs to the UN Mediator Galo Plaza. See his *Report of the United Nations Mediator on Cyprus to the Secretary General* (paragraph 163) which was issued on 26 March 1965.

5 Camp, Glen D. (1985), "Greek-Turkish Conflict over Cyprus," *Political Science Quarterly*, vol. 95 Spring, p.49.

6 The following works provide information and analysis regarding the American and Soviet role in Cyprus: Monteagle Stearns (1992), *Entangled Allies: U.S. Policy Toward Greece, Turkey, and Cyprus*, New York: Council of Foreign Relations Press); Hart, Parker (1990), *Two NATO Allies at the Threshold of War, Cyprus: A Firsthand Account of Crisis Management, 1965-1968* Durham: Duke University Press, 1990); Couloumbis, Theodore (1983), *The United States, Greece, and Turkey: The Troubled Triangle*, New York: Praeger; Couloumbis, Theodore and Hicks, Sallie (1975), *U.S. Foreign Policy toward Greece and Cyprus: The Clash of Principle and Pragmatism* Washington, D.C.: The Center for Mediterranean Studies; Adams and Cottrell, *Cyprus Between East and West*.

7 The unilateral declaration of independence of the "Turkish Republic of Northern Cyprus" was made on 16 November 1983. It is interesting to note also, that less than a year after the Turkish invasion, on 13 February 1975 the Turkish Cypriots had unilaterally proclaimed the "Turkish Federated State of Cyprus."

8 The Security Council passed Resolution 541 (18 November 1983) which condemned the unilateral declaration. It stated, *inter alia*, the following:

- *Deplores the declaration of the Turkish Cypriot authorities of the purported*



*secession of part of Cyprus;*

*- It considers the declaration referred to above as legally invalid and calls for its withdrawal;*

*- Calls upon all States to respect the sovereignty, independence, territorial integrity and non-alignment of Cyprus;*

*- Calls upon all States not to recognize any Cypriot State other than the Republic of Cyprus.*

9 Implying that in the case of the Iraqi invasion of the oil producing Kuwait in 1990, the converging interests of the powerful countries led to joint action under the UN umbrella for the expulsion of the Iraqi occupation forces from Kuwait.

10 Report of the Secretary-General on his Mission of Good Offices in Cyprus, UN doc. S/1994/629, 30 May 1994, paragraph 52.

11 Ibid., par. 53.

12 UN doc. S/13369, 31 May 1979. The Kyprianou-Denktaş agreement provided also that priority would be given on the resettlement of Varoshia and that the demilitarization of the Republic of Cyprus would be discussed. (Varoshia is part of the city of Famagusta. Until 1974 it was inhabited by Greek Cypriots. Today it is an uninhabited ghost town, fenced off by the Turkish occupation army.)

13 The Association Agreement was signed on 19 December 1972 and went into effect on 1 June 1973. It should be noted that the Association Agreement was signed between Cyprus and the European Economic Community (EEC) while the application for membership was for the European Communities (EC), that is the European Coal and Steel Community (ECSC), the European Economic Community (EEC), and the European Atomic Energy Community (EAEC).

14 The Protocol was signed on 19 October 1987 and went into effect on 1 January 1988.

15 The application was submitted by the Government of Cyprus representing the population of the entire island. This was reconfirmed in the *Opinion on the Application by the Republic of Cyprus for Membership* (hereafter *Opinion*) which was issued by the Commission and noted that "when presenting its application for accession, the government of the Republic of Cyprus, recognized by the European Community as the only legitimate government representing the Cypriot people, addressed the Community on behalf of the whole of the island." Paragraph 10 of the *Opinion*.

16 *Opinion*, par. 10.

17 *Conclusions* of the Council of General Affairs, 4 October 1993.

18 For the purposes of the substantive talks, twenty-three working groups and dozens of sub-groups were formed on the Cypriot side. These groups were composed of public servants and delegates of semi-government agencies and the private sector. The talks covered almost all chapters of the *acquis communautaire* under the following headings: 1. External trade policy and relations 2. Free movement of goods, customs union 3. Free movement of services, right of establishment 4. Free movement of capital 5. Free movement of persons, employment and social policy, education 6. Common agricultural policy, fisheries 7. Industrial policy, energy 8. Common transport policy 9. Economic and monetary union 10. Common foreign and security policy 11. Cooperation in home and justice affairs 12. Environment 13. Competition policy, consumer protection 14. Regional policy, structural funds, cohesion fund 15. Company law 16. Statistics 17. Taxation 18. Telecommunications 19. Enterprise policy, distributive trade, tourism, cooperatives 20. Research and technology policy 21. State aids 22. Budgetary and financial matters 23. Health matters.

19 The *acquis communautaire* has been defined in a report of the Commission entitled *Europe and the Challenge of Enlargement*, which was presented to, and endorsed by the Lisbon European Council (June 1992), as containing the following:

- *the contents, principles and political objectives of the Treaties,*
- *the legislation adopted in implementation of the Treaties, and the jurisprudence of the Court;*
- *the declarations and resolutions adopted in the Community framework;*
- *the international agreements, and the agreements between Member States connected with the Community's activities.*

20 *Conclusions of the Presidency*, Cannes European Council, 26-27 June 1995.

21 *Conclusions of the Presidency*, Madrid European Council, 15-16 December 1995.

22 *Agenda 2000*, Commission Communication, Doc. 97/6, 15 July 1997, vol.1, *For a Stronger and Wider Union*, p. 3

23 *Ibid.*, par. 66.

24 *Ibid.*, par. 66.

25 The decision reads as follows: "The accession process will be launched on 30 March 1998 by a meeting of the Ministers for Foreign Affairs of the fifteen Member States of the European Union, the ten Central and Eastern European applicant States and Cyprus," Luxembourg European Council, Presidency Conclusions, 12-13 December 1997, par. 11. (The ten Central and Eastern European applicant States are: Hungary, Poland, Estonia, the Czech Republic, Slovenia, Romania, Slovakia, Latvia, Lithuania and Bulgaria).

26 Ibid. par. 27.

27 Ibid., par. 28.

28 Vienna European Council (11 and 12 December 1998) *Conclusions of the Presidency*, par. 59.

29 These conditions and criteria were spelled out in the *Conclusions of the Presidency*, Copenhagen European Council, 21-22 June 1993, as follows:

*Membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for the protection of minorities, the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union. Membership presupposes the candidate's ability to take on the obligations of membership including adherence to the aims of the political, economic and monetary union.*

30 *Opinion*, par. 48.

31 *Opinion*, par. 47.

32 *Agenda 2000*, Commission Communication, Doc. 97/6, 15 July 1997, vol. 1, *For a Stronger and Wider Union*, p. 66.

33 *Opinion*, par. 44. This is the first paragraph in the "Conclusions" of the *Opinion*.

34 Facts, figures, and information on the economy refer to the Government controlled area of the Republic of Cyprus.

35 This has been confirmed by the *Opinion* (paragraph 46) which states that "the adoption of the *acquis communautaire* by Cyprus will pose no insurmountable problems."

36 In the *Opinion* (paragraph 22) it was stated that "Cyprus must also give up its membership of the Non Aligned Movement of which it was a founder-member and in which it continues to participate actively." It seems that Cyprus has no problem abandoning the Non Aligned Movement before or upon accession to the EU.

37 *Conclusions of the Presidency*, Dublin European Council, 12-13 December 1996.

38 Resolution on Cyprus, adopted by the European Parliament on 18 September 1997.

The European Parliament has adopted several similar resolutions during the past few years. Here are two more examples: In a resolution adopted on 21 January 1993, the European Parliament "[r]eaffirms its conviction that the continuation of the status quo in Cyprus is unacceptable and poses wider dangers for the region." It also "[c]alls upon the Government of Turkey to withdraw its occupation forces from the Republic of Cyprus in accordance with the relevant UN resolutions and calls for the Turkish troops to be replaced by United Nations peacekeeping forces." In a resolution adopted on 12 July 1995, the European Parliament "[p]oints out that the Union considers the island to be a single entity, with a legitimate and internationally recognized government, and that the status quo is unacceptable, as was reaffirmed in the UN Security Council Resolution 939/94 (paragraphs 1 and 2)."

39 The terms of reference of the European observer were as follows: "prior to the review scheduled for January 1995 of the question of Cyprus's accession to the European Union, to report periodically to the Council on the implications of political developments in Cyprus for the Union's *acquis communautaire*, including the progress of the UN Secretary-Generals's good offices mission for Cyprus."

40 *European Observer's Report on Cyprus*, paragraph II, 2(ii). The Report was issued on 23 January 1995.

41 *Ibid.*, par. 6.

42 *Ibid.*, par. 6.

43 *Ibid.*, par. 7.

44 *The Cyprus Weekly*, March 12, 1999.

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# EURO-MEDITERRANEAN FORMATIONS AND THE EMERGING EUROPEAN SYSTEM: THE CASE OF CYPRUS

Dimitris K. Xenakis

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## Abstract

*The European Union's (EU) post-Cold War agenda has been reshaped to accommodate regional transformations in its periphery, whilst preserving the symbiotic relationship with its members. The 1989 shift of the European international system resulted in the countries of Central and Eastern Europe (CCEE) to aspire becoming part of the European zone of democracy, stability and prosperity as currently embodied by the EU. Yet, it is also no secret that the stability and prosperity of the Mediterranean region is of great importance to Europe in general, and the EU in particular. In view of the massive prospective enlargement towards the CCEE, it was necessary for the EU to strengthen its relations with the Mediterranean south. The accession of Cyprus would correct this geographical imbalance by adding another Mediterranean member, and by extending the Union's boundaries offshore to the Middle East. Yet, the Cyprus relations with the EU, besides the economic development of the island and the resolution of the long-standing national problem, extend to issues of stability and prosperity in the Mediterranean. In fact, the latter is the arena within which Cyprus has to live and flourish. The fact that Mediterranean issues feature rather low in the EU's policy priorities is arguably against the fundamental Cypriot interest for greater European involvement in the development of the region. It is questionable how the Cypriot priorities in the Mediterranean would fit those of the eastwards enlarged EU. The twin foci of this paper are directed both on the implications arising from the changing European international system, as well as on those stemming from the new Euro-Mediterranean politics for Cyprus, a 'small' island-state in the Eastern Mediterranean. The crucial question concerns the role Cyprus could play as a member of the Union (once in), as well as an actor in the emerging management structures of the Euro-Mediterranean space.*

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### System-Change and the Dynamics of New Europe

The transformation in world politics since the end of the Cold War has led Europe to a state of unpredictable change and disorder. Despite the violent break-up of the pre-1989 order has not (as yet) been replaced by new structures and ways of establishing a system of international relations founded upon stronger and more efficient institutions. Some of the latter, which function in Europe's overlapping security structure such as the European Union, the Western European Union (WEU), the North Atlantic Treaty Organisation (NATO), and the Organisation on Security and Co-operation in Europe (OSCE), are adapting themselves to the realities of the new era.<sup>1</sup> But this also means that security in Europe will remain in a state of flux for the foreseeable future.

Prophecies of radical regressions have not yet been fulfilled, but as we are now entering firmly into a multidirectional and more complex international system, its genesis is creating a considerable 'power vacuum'. Regional/international organisations - like the EU - can therefore make their own mark. The vast number of applicants committed themselves to joining the Union reflects general perceptions of the EU as an international actor. Yet, the volatile situations in its peripheries require complex governance. Considering the widely acknowledged importance of regional and world trading-blocs in the new pan-European landscape, the EU has one more chance to consolidate its international position as the strongest economic union of states. Indeed, as Buchan has argued, the Union has now an additional advantage in world politics, because economic problems are at the top of the agenda.<sup>2</sup> In short, as the EU has become the centre of gravity for its eastern and southern peripheries, one may legitimately expect that its leadership potential will face up to its growing international responsibilities, including the application of 'good governance' in the management of the Euro-Mediterranean space.<sup>3</sup>

Therefore, the crucial point remains on the two symbiotic directions that figure prominently in the EU's current political considerations for the architecture of Europe itself. The first direction of systemic change that is currently underway is the Union's enlargement with the intent of projecting security eastwards in the *Mitteleuropa*, but also southwards in the *Mare Nostrum*. The second direction takes the form of deepening the integration process - the new Treaty of Amsterdam being but a relatively modest step<sup>4</sup> and creating solid institutional structures for the Union to play an effective international role in world politics.

The shifts in Europe's international system, not only raise questions about the Union's ability to function effectively as one player in the global arena, but also, by redefining the EU's borders, it promises to introduce new issues and new tasks into the scope of its foreign and security policy. After all previous enlargements, the EU

remained essential the same, the only material difference being that there were more members, and more special interests to accommodate. But the new, larger Union will be different from the old, in at least two fundamental ways: in its diversity, and in the geo-strategic implications of its changing topology. This becomes clearer when one considers the fact that the complexities of a further Mediterranean enlargement are not particularly well conceived in Brussels, or at least they sound differently from those of the CCEE. In this context, it was originally perceived that the accession of Cyprus and Malta to the EU would somewhat redress the imbalance by forcing the latter to reconsider its Mediterranean priorities. Moreover, the rest of the Mediterranean countries that are not presently considered for EU membership loom in the comprehensive framework of the EMP, which replaced the largely uncoordinated previous policies and initiatives of the EU and its members towards the Mediterranean.

Currently, the EU faces major challenges in relation to a southern enlargement with countries like Cyprus, Malta and even with the problematic, yet established regional power-actor, Turkey. Today, it seems evident that the EU's next wave of enlargement will not include Malta, although the new Nationalist/Conservative government is very much in favour of EU membership. On the other hand, Turkey will most certainly not make it in the next EU enlargement, not least due to its failure to establish a viable democratic regime, its grim human rights record, and the long standing dispute with another EU member, Greece. However, Turkey's accession to the Union also seems highly unlikely due to the fact that the Central and Eastern European applicants had emerged as likelier future EU members. Finally, Cyprus first applied for full EU membership in 1990 and since then its application has been examined twice for eligibility; in 1993 (with Malta), and again in the European Commission's 1997 'Agenda 2000' Report (along with 11 more CCEE). Both Reports were in favour of Cyprus's accession to the EU, with no insurmountable problems for the adoption of the *acquis communautaire*, including the country's capacity to participate in the Economic and Monetary Union and the Common Foreign Security Policy (CFSP).<sup>5</sup>

Although the Cyprus application has not been finalised yet, new issues and questions have arisen for the country's policy-makers. For, whenever Cyprus joins the EU, it will be in a much wider Union, composed of, say, 21 or even 27 states, whose main characteristic will be the non-uniformity of its members in terms of economic development, political and legal systems, defence and foreign policy orientations and priorities. In other words, the EU will be approximating most closely to a 'regional regime',<sup>6</sup> where the dominant logic will be that of differentiation or, in recent EU parlance, flexibility. The increasing diversity within the Union will no doubt influence the future of the EMP, especially now that the EU has made considerable progress in re-approaching the Mediterranean. But the intergovernmental nature of

the Union itself ensures that the pursuit of national interests in the region will remain dominant in the foreseeable future. Having said that, the main challenge for Cyprus after its accession to the EU and, by extension its participation to the common institutions, will be to redress the internal balance of the enlarged Union in the light of promoting its Mediterranean interests. The latter would only be achieved through coalition-building and alliance-formation not only with the other EU Mediterranean states, but also with other littoral countries, as both regional constellations share the anxieties posed by the post-Cold War era.<sup>7</sup>

### Europe's Mediterranean Dimension

It is a common secret that the cataclysmic change which took place post-1989 in the end the prospects of integrating the CCEE into the new (Pan-)European system has led the EU to employ a dynamic policy towards its eastern periphery, which by no way can be compared with its Mediterranean policies. The replacement of the threat of communism by multilevel and pluri-dimensional threats has lent great fluidity and instability to the Euro-Mediterranean system, which was not well equipped in terms of policies, competencies and institutions to deal with it. But as EU foreign policy-architects directed their *foci* in the East, the response to the growing scale of conflicts and serious disputes in the wider Mediterranean region has been largely left to the EU's southern member-states to deal with.

Hence, in order to redress the Union's overall imbalance, the EU's southern members along with some Mediterranean countries put forward multilateral schemes,<sup>8</sup> generally incapable of dealing with the complex array of security challenges in the region. European ambitions for a stabilised and prosperous Mediterranean have mainly promoted from EU southern members in the form of uncoordinated initiatives and also outside the Union's Mediterranean policy. The answer, however, to the question of why these initiatives launched in region after 1989 outside the EC/EU's Mediterranean policies, a satisfactory answer can be found to the inability of European Political Co-operation - to co-ordinate the diversified national perspectives of the southern European countries. This proved to be a very ineffective process, sometimes even causing friction among southern EU member and applicant states.<sup>9</sup> However, these initiatives, which applied on parts of the Mediterranean rather than to the whole of the regional system, seem to have created more tensions among the southern EU members than any positive results in terms of co-operation. These differences illustrated that the EU's Mediterranean states have not yet found a reliable *modus operandi* for utilising their common membership to promote their interests in the region.

In particular, France, Spain and Italy bring Mediterranean issues to the fore of the EU's agenda, for they traditionally maintain a plethora of economic and political ties

with the region. France, however, has displayed a distinctive and rather 'inchoate strategy'<sup>10</sup> towards parts of the Mediterranean, thus making it hard for the Union to accept a French leadership in its Mediterranean policy-making. The problem is further compounded by the fact that other EU members have also expressed their own distinct preferences to the EU's Mediterranean policy, most notably Spain, but also, and to some extent, Italy.<sup>11</sup> It should be considered yet another Mediterranean contradiction that, while those three southern European countries play an essential role in the setting of the EU's Mediterranean agenda, smaller countries like Greece, Portugal and Cyprus reflect the constraints confronting peripheral but relatively less-developed regions in their southern shores.<sup>12</sup> In addition, the southern and eastern Mediterranean countries worried that the massive transfer of resources to the southern EU members as part of the single market initiative and, subsequently, of the effort to achieve Monetary Union, would further the divide between the Mediterranean shores.

### **Security, Complexity and Interdependence**

The Mediterranean basin encompasses at least two international regions (Western Europe and the Middle East), and three sub-regional groupings, Southern Europe (Portugal, Spain, France, Italy, Greece, Turkey, Cyprus and Malta), the Mashreq (Jordan, Israel, Lebanon, Jordan, Egypt and the Palestinian Authority) and the Maghreb (Morocco, Algeria, Tunisia and Libya.). Seeing through the analytical lenses of international regionalism, existing Mediterranean considerations need a complex re-conceptualisation of both their regional and sub-regional dynamics.<sup>13</sup> There is no doubt that, operationally at least, it is more important to pay attention to specific problems; yet, there is some utility in thinking about the Mediterranean region as a whole. The latter could also be seen as a dense network of diversities and dividing lines between different socio-economic systems, political cultures and regimes, languages, forms of expression, and religions. The Mediterranean has always been a crossing point for conflict and co-operation, antagonism and coexistence. Thus, its sub-regional groupings do not share the features traditionally found in international regionalism, as they have never formed a 'common co-operation space'.<sup>14</sup> Yet, Braudel writes: 'as the Mediterranean regions are open to influences and exchanges they form a large-scale unity, whose history could only be understood by looking at the factors that tied them together and changed only over very long periods of time'.<sup>15</sup> In defence of that, Aliboni asserts that cooperation and security across the Mediterranean are possible but cannot be taken for granted, as they require an effort of will and specific management.<sup>16</sup>

From the Second World War until 1989, the European landscape served as the primary international theatre for the long-standing bipolar confrontation between East and West, while developments in other regions of the globe were considered

of secondary importance. This tradition significantly affected European threat perceptions for more than half a century. This attitude has changed since the collapse of the 'communist threat' and the fall of the Berlin Wall. Now that the once fearsome Soviet threat has actually vanished, the post-Cold War European challenge is confronted by instability deriving from socio-political and economic disparities, together with localised instability and the risk of regional conflicts. Arguably, the most alarming source of insecurity for the New Europe is the wider Mediterranean regional complex. Although no longer a feature of the East-West confrontation, the region represents a potential source of destabilisation with significant economic and political consequences for Europe as a whole.

During the Cold War, the Mediterranean represented a crucial area in strategic terms, encompassing many possible seats of conflict as well as a series of unresolved disputes with a strong historical background (for example the Greek-Turkish dispute over Cyprus and the Arab-Israeli conflict). Syria, Libya and the Balkan countries were supported by the former USSR, while US support was directed toward Israel, Lebanon, Jordan, Morocco and Tunisia, with both the US and the former USSR competing to support Egypt and Algeria. It is worth remembering that in the bipolar distribution of power in the region, the European Community (EU) was supporting Turkey, Malta and Cyprus. The fact that the Mediterranean served as a regional security chessboard for the strategic policies of the two dominant military blocks - NATO and the Warsaw Pact - has introduced fragility in the regional security balance which persists even after the collapse of the Eastern pole in the European international system.

From a macro-historical perspective, the political fragmentation of this regional complex and its often clashing diversity - itself founded upon long-standing nationalist and ethnic tensions - constitute important obstacles to any substantive regional co-operation. The paradox is that unity and diversity have been co-existing elements in the Mediterranean. Many of the present issues of Euro-Mediterranean diplomacy have their roots in history. Colonialisation was first practised by the South on the North and later on *vice versa*. The Egyptian, Greek and Persian civilisations, the Roman Empire, and the successive waves of Slavs, Arabs and Turks, have all found their way in the region and sought to use it so as to extend their range of cultural influence, economic activity, and political domination. Actually, the Mediterranean has always been a crossing point for conflict and co-operation, antagonism and coexistence. However, the questions currently involved are new, in that they are products of the new world (dis)order, especially since the Gulf crisis in the summer of 1990. From an international relations perspective, the latter signalled a re-arrangement of world order, reducing the East-West confrontation to a minimum, whilst re-emphasising, in however complex terms, the Orient-Occident and North-South gaps. These events also appeared to have offered useful ammunition



to those supporting the idea that the dominant conflict post-Cold War is between Occidental and Oriental values.<sup>17</sup> But even before the Gulf crisis, a theory started to take shape, that is was not Communism that constituted the major threat for the West, but rather 'Islamic fundamentalism'.<sup>18</sup>

It is more appropriate then to emphasise the importance of the North-South dichotomy in the region, linked to the rich-poor gap in the basin. The North is affluent, and becoming ever more so, in spite of the current recession setback. Today, the Mediterranean offers a most dramatic illustration of complex inequality, as for example the total GDP of EU Mediterranean states in the North is eleven times greater than its southern littoral counterparts.<sup>19</sup> Cyprus is also a good case in point, with a population of 700,000 and a per capita income of nearly \$10,000, while Egypt, with 58 million people, is below \$800 per capita. Unequal economic development, the plurality of political regimes, the divergent perceptions of security threats, and a quite strong demographic growth are the major exacerbating factors affecting the Mediterranean North-South divide. One can hardly select a better example for the Mediterranean region within which there is a clear dividing line between a rich(er) North and a poor(er) South.

The Gulf incident at the beginning of the 1990s has also served as a reminder of the Mediterranean region's potential to fall victim to a plethora of similar disputes over regional hegemony and an associated trend towards over-armament. It heightened alertness of the social, demographic, economic and political challenges ('low politics'), as well as traditional military security anxieties ('high politics'). This is not to say that the Europeans, while often speaking of multidimensional challenges, actually perceive any distinct, direct threat from northern Africa. A military threat to Europe from the Mediterranean is rather unlikely, as the Mediterranean countries attach more importance to threats coming from the Arab world.<sup>20</sup> Neither are there any military threats-from Europe perceived in the southern Mediterranean countries, where the term 'security' is usually associated with internal problems. Nevertheless, most of the southern Mediterranean countries view the development of a European Security and Defence Identity with suspicion.

It is still important to note the difficulty on the part of the Union to deal with security issues in the Mediterranean in contrast to dealing with other regions like Central and Eastern Europe. In fact, the EU has to anticipate possible hostility in the Mediterranean without provoking it (similar to the way it is 'handling' Russia).<sup>21</sup> In addition, the majority of the south Mediterranean countries are sceptical of the US's alleged unwillingness to undertake a decisive role in the Mediterranean; something they also perceive as one of the causes of the regional arms races.<sup>22</sup> Through this inertia, patterns that have developed in regional politics remain there. Even when policy attempts are made in a different direction, the old patterns tend to become

convenient tailback positions when the new efforts are faced with setbacks. It is equally true, however, that the EU faces significant difficulties in assuming a substantive security role in the Mediterranean as a result of the presence of the American 'factor' in the region and the reluctance of the latter to share its regional initiatives - e.g., the Middle East Peace Process.

In recent decades we have witnessed in the Mediterranean the break out and prosecution of diverse armed conflicts (both within and between nations), and the appearance of shaky political dynamics. These phenomena have as their origin the particular characteristics of the region itself, an area where the existence of diverse types of conflict signals the eventual appearance of others. In addition, although the European countries of the Mediterranean have reached a high level of political stability and participate in common institutional(ised) structures - the existence of which prevents the appearance and the escalation of both internal and external disputes - in contrast, the rest of the littoral countries are confronted with acute clashes. In light of the above, the establishment of adequate institutional machinery in the region is deemed necessary given the endemic nature of its actual and potential tensions. As long as the Mediterranean continues to serve as a border between a wealthy, developed, and stable Europe on the one hand, and a fragmented South on the other, the EU could realistically hope to 'keep the fire under control without trying to extinguish it'. The EU, however, has first to resist to the temptation of becoming a *participant* rather than an *intermediary* in potential conflict situations in this unique 'body of water'.<sup>23</sup>

The Euro-Mediterranean regional complex combines both power politics and interdependence, in that bilateral relations are concluded on realist principles, whereas at a multilateral/regional level it has become clear that interdependence is increasing. The tendency for the littoral states to act unilaterally in an effort to solve their emerging security anxieties is self-defeating, and needs to be replaced by a more balanced and comprehensive 'security regime' founded upon substantive regional co-operation for both the management and resolution of potential conflicts. This recommendation is based on the idea of enhancing national security through the *prolepsis* of immediate violent crises, but also through a long-term process of transparency and peace-building. For, preventing conflicts before they arise is much more effective and cheaper than responding militarily if and when they do.<sup>24</sup> This applies especially if one takes into account the possibility of Mediterranean challenges to becoming direct European threats. It could be argued that, the most crucial security challenge facing Europe and more particular the EU in the Mediterranean today rests on the need to establish a set of complementary and overlapping security structures and mechanisms in the Mediterranean hotbeds of tension. It remains, however, unclear whether these can effectively impact on the choice made by the participating states when it comes to issues where national

interests are, or appear to be, at stake. However, in order to achieve a relaxation of North-South tensions any regime should aim at creating a symbiotic relationship between all parties.

### **The Euro-Mediterranean Partnership**

An increased anxiety for the developments in the region has been recorded, first in 1975 at the beginning of the Euro-Arab dialogue, then in mid and late 1980s, and again after the Gulf war, where signs of an enhanced European interest in the Mediterranean emerged. Actually, the European Community developed conventional relations with the littoral countries from the early 1960s, while it has also participated - through the mechanisms of European Political Co-operation - in both major political issues of the region, namely the Middle East Peace Process and the Cypriot dispute. It could be argued that the Community was anxious from early on to open up both its membership and markets to Mediterranean countries, as it represents the biggest economic partner for the latter.<sup>25</sup> Hence, its Mediterranean relations were governed by bilateral agreements, although most of them were of similar, if not often identical, content. Such a fragmented approach resulted in two types of association agreements: those concerning its prospective members (Turkey, Malta and Cyprus) and those concerning the rest of the littoral states (Morocco, Algeria, Tunisia, Jordan, Syria, Israel, Egypt, Lebanon and the Palestine Authority).

It should be noted that, although the pre-1995 EU Mediterranean policies strengthened to some extent the intercourse of economic and political co-operation between the two shores of the Mediterranean, they failed to establish a comprehensive co-operative security regime. However, in the late 1980s and early 1990s, by reconsidering the security anxieties of Europe, the dilemma for the Community was to allow wider gaps in socio-economic development between itself and its Mediterranean neighbours, or 'to minimise the danger of instability on its proximity'.<sup>26</sup> Finally, in November 1995, the EU decided to pass from the stasis of its previous Mediterranean policies to a new strategy aiming at correcting the imbalance created by its previous monolithic bilateral (trade) relations within a more coherent policy framework that would secure stability and the prosperity.

Epitomising the essence of the 1995 Barcelona Declaration is the emphasis put on respect for democracy and human rights, political dialogue, economic liberalisation, as well as financial and technical assistance for the Mediterranean partners in their adjustment processes.<sup>27</sup> The Declaration merely recalls the numerous international norms and values on inter-state relations and global disarmament agreements. It also included - albeit in the circumlocutions of diplomacy - cooperation on combating terrorism and drug-trafficking as well as on increasing arms control, par-

ticularly regional renunciation of nuclear, chemical and biological weapons and issues of illegal immigration. The 1995 Barcelona document infused a greater political and security bias to Euro-Mediterranean relations, whilst encompassing an ambitious economic plan for the creation of an industrially inspired free trade area by the year 2010. However, free access to industrial exports does not mean a great deal if there is little to export, as is the present case for most of the Mediterranean partners.<sup>28</sup> Moreover, the MEFTA objective, which is to be achieved through a series of economic reforms, also hide security risks, since accelerated market liberalisation in the southern Mediterranean rim could produce greater waves of instability in this sensitive region. But the EMP does not yet involve any ingenious mechanisms to sustain regional political co-operation, something, which might be vital in the possible case of further economic recession and political instability in the southern Mediterranean rim.

The EMP did address the post-Cold War Mediterranean reality: an overlap of different regions integrating different dimensions, including the socio-cultural one - something that apparently was missing from previous Mediterranean initiatives.<sup>29</sup> Actually, the rationale of this Mediterranean initiative was to lock the EU with the 12 Mediterranean countries in a process with common framework through co-operation in all three political, economic and socio-cultural dimensions. To be sure, as Attinà has asserted, the EMP is a case of 'diffusion effect', reflecting the EU's model for co-operation.<sup>30</sup> Although the three baskets agreed in Barcelona in 1995 involved some well-known topics of Euro-Mediterranean diplomacy, they aimed at accommodating *ad integro* both emerging and established regional convolutions. They also encompassed a set of policy components whose roots lie in the concepts of both the 1992 Maastricht Treaty on European Union and the Conference/Organisation on Security and Co-operation in Europe (C/OSCE).<sup>31</sup>

Crucially, the inclusion of a follow-up mechanism constitutes the dynamic element that provides assurance for the 'continuity' of the 'Euro-Med project', placing the EMP in a position to be considered as a pragmatic mechanism: a major forum for international co-operation, as well as a procedure applying to various sectors (at both Ministerial and Senior Officials level). The Barcelona Process established a Euro-Mediterranean Committee consisting of officials from the EU Troika (the current, previous and next Council Presidencies) and from all twelve southern Mediterranean countries. It was decided that the Committee should meet regularly and report to the Foreign Ministers. It was also decided that Foreign Ministers of all partner-countries will meet periodically to review progress in implementing the principles of the Barcelona Declaration and to agree upon actions that would promote its objectives. This was a substantial advance compared to earlier European policies and initiatives, with ill-defined follow-up provisions depending on constant ministerial action. The EMP has also the advantage of elevating the status of the EU's

Mediterranean policy to a genuinely common European policy, rather than one confined to its southern European countries and their largely uncoordinated initiatives in the region.

In practice, after 1995 the Barcelona Process was moved forward by a series of new Euro-Mediterranean Association Agreements, which updated and enhanced the previous individual agreement between the EU and the southern Mediterranean countries. Still, the idea of using the EMP as a springboard for strengthening the cooperation between the 12 Mediterranean states has not been profitable, and thus trade among the southern Mediterranean partners still remains on a very limited level. This has also been associated with the worsening of the Arab-Israeli relations late in 1995 and the consequent upheaval among the southern partner-countries. The results of the second Ministerial Meeting held on the island of Malta in 1997 provided a reality check of what were the main issues at stake in the first two years of the Barcelona Process.<sup>32</sup> The EMP's detachment from the - US dominated - Middle East Peace Process was a manipulation by the Europeans to avoid the obstacles posed by the complex relations of the Eastern Mediterranean. But the exclusion of the US from the EMP - something that gave the EU a predominant role in the EMP - brought about in turn reluctance on the part of the US to share its Middle East initiative. Keep the US out of the EMP on the one hand was of great importance to the Euro-African Mediterranean region, especially if seen in connection to the previous experience of containing the US presence in Europe, e.g. in Bosnia. But, on the other hand this mutual exclusion between EU and the US should be regarded as a major problem obstructing the Barcelona from bearing full fruit. This is seen in the negative results noted in the second Euro-Mediterranean Conference in Malta in April 1997, underlined by the existence of a causal relationship between progress in the Middle East peace process and progress in the Barcelona Process. It was hoped from the beginning of the formation of the EMP that these two separate processes would be complementary but not linked to one another. The Barcelona Declaration was adopted after the signing of the Oslo Accords. Today we are in a rather different political atmosphere in the Middle East. The next meeting in Stuttgart will be crucial, for it will be held three weeks before the end of the five-year period of the Oslo Accords.

*Grosso modo*, the EMP was the result of a successful effort by the EU to re-innovate and reinforce its Mediterranean policy. The Barcelona Process has been described as a political gesture aiming at correcting the problems that were created from the inadequacy of its previous narrow-minded policies towards the region.<sup>33</sup> The Barcelona Process should be conceived in Gillespie's words as 'emblematic of a process' being constituted from a dynamic set of international exchanges, but still one which leaves much to be desired before it becomes a meaningful partnership between the two Mediterranean shores.<sup>34</sup> Although there is evidence to suggest that

the EMP is moving in the right direction, it does so at a relatively moderate pace. The new elements embedded in the Barcelona Process, especially when compared with the pre-1995 EU Mediterranean policies, may animate some confident expectations about its future, but realistically, the development of the Euro-Mediterranean relationship depends both upon the willingness of the Union to extend its cooperation further and the readiness of the Mediterranean south to respond effectively.

### **A Patchwork of Regimes**

From a systemic point of view, the EMP is a multi-dimensional regional/international regime that established the linkages between political (security/politics), economic (MEFTA) and socio-cultural (human rights/civil society) security arenas. The Partnership has a rather innovative system of arrangements (regimes) in terms of flexibility for both the Union and its Mediterranean partners. One should not forget that the substantial differentiation of the ratio with the financial budget of the Union for the reconstruction of Eastern European economies and policies, was the major reason for attracting the interest of the southern Mediterranean countries in the first place.<sup>35</sup> Indeed, the partnership is propelled by a certain economism whose financial implications are particularly favourable to the non-EU partner states. In return to the above, the Union linked the issue of economic liberalisation to the set of political principles ratified in 1995 in Barcelona.

The entire EMP was a collective European attempt to redefine its threat perceptions from the Mediterranean and, rather than detecting an Arab military threat, it addressed the danger of social unrest and economic underdevelopment. The European consensus on traditionally sensitive issues such as human rights, democracy, self-determination, religious tolerance, together with the initiation of economic and financial co-operation among the Mediterranean states, constitutes the space of regional/international relations where the expectations of the actors converge, and thus, an international regime. Overall, it could be argued that the EMP presents a balance of European and non-European interests, rather than a genuinely common Euro-Mediterranean interest *per se*.

Furthermore, the establishment of a minimum of Euro-Mediterranean institutions may indeed transform the EU's policy towards an international regime *in statu nascendi*.<sup>36</sup> It is maybe useful to remember that regional security regimes would continue to play an important role in the new European security architecture. But what has really changed with the end of the Cold War is not their relevance to security but 'the nature of the functions that must be performed by the types of regimes that have been implemented to secure stability'.<sup>37</sup> What is relevant here is that, by recognising the linkages between political, security, economic and socio-cultural regimes, the security approach adopted in the context of the EMP put it in

a position to be considered as a regional regime in the making. All the more so, when thinking of the new functions that the post-Cold War era has imposed on international organisations and institutions, it is questionable how far the EMP can realise its objectives under its currently weak institutional machinery.

Certain alterations need to be made if the EMP has to prove a real partnership that will accommodate solutions to the many security complexities of the region. The prospective Stability Pact (to be signed in the third Ministerial Conference of the EMP in Stuttgart in April 1999) will be for the Mediterranean an exercise in pre-emptive diplomacy and, above all, an institutionalised alliance within the EMP. It can enhance the transparency required for an ongoing dialogue and the establishment of mechanisms to manage crises so as to prevent them from deteriorating into conflicts. Indeed, the creation of Partnership Building Measures will ensure security and stability in the region. Also, the emerging inter-parliamentary co-operation through the parliamentary Forum (inaugurated in autumn 1998) provides the EMP with a legitimising forum to promote peace and stability in the Euro-Mediterranean space. In this Forum, the regular dialogue will engender the awareness of common Mediterranean interests and will provide the necessary mutual support for regional co-operation.

Concluding on the new Mediterranean politics, whether the EMP will be capable of playing a dynamic role in the political, economic and security arenas of the Mediterranean, depends also on the process of adjusting its own institutional structure to fit the Mediterranean peculiarities. If the EMP is to become a more effective Euro-Mediterranean approach, then the creation of institutions and mechanisms for political and security co-operation should be considered as a 'safe way' to put itself on a more permanent footing. In this case, the creation of adequate mechanisms - similar to those used in the Helsinki Process - should be regarded as a prototype for the utilisation of the EMP.<sup>38</sup> There is an urgent need for innovative thinking, which would not only take into account the experience from the past, but would also keep in mind the specificity and systemic complexity of the Mediterranean. The adoption of such mechanisms will formalise the whole process and will guide much more effectively the changes needed in the Mediterranean, as inspired in the Barcelona Accords.

### **Cyprus between Membership and Partnership**

A strategically located island at the cross-roads of three continents (Europe, Asia and Africa), a place where civilisations clashed and blended, Cyprus has always been a part of the West and a bridge to tie the Middle East and the Orient.<sup>39</sup> The strategic location has destined Cyprus to act as the gateway from Europe to the Middle East and *vice versa*. For Cyprus, the Mediterranean is not simply the only

frontier with neighbouring countries; it is a shared area of common interest and activity with these states, where all major and most minor events have a direct and intimate bearing on Cyprus's national life, in terms both of security and prosperity. In the midst of all the destabilising factors described earlier in this article, and by looking beyond the Cyprus question itself, Cyprus's foreign policy is dictated by its particular geo-strategic position, by the political situation prevailing in the Mediterranean, and by the pattern and orientation of its commercial relations. Today Cyprus aspires to maintain and enhance its position as an economic and financial centre, a communications and transport hub, and a meeting point for diverse peoples and cultures.<sup>40</sup>

Despite the smallness of its size, ever since its establishment in 1960, Cyprus has traditionally played a disproportional to its size role in regional and world politics. Its strategic position, not only in terms of geography but also vis-à-vis relations with Mediterranean states having different world views, has given Cyprus the opportunity to execute functions far beyond its actual dimension. It is worth noting that, soon after its independence, the Republic of Cyprus joined the Council of Europe (1961) and has been an active member ever since. Although there are still British sovereign bases on the island and the three guarantor powers of Cyprus's independence (United Kingdom, Greece and Turkey) are all members of NATO, Cyprus has pursued in the Cold War era a neutral policy and still is an active partner of the Non-Aligned Movement. But in the Mediterranean region, Cyprus has special relations with both its Arab neighbours and Israel, and has strongly supported the Middle East peace process. Yet, the island's efforts to join the EU were at all times receiving top priority reflecting its strong political, cultural and historic ties to Europe.

From an international relations perspective, the aim of Cyprus' 'European Orientation' policy is closely linked with the systemic ineffectuality of small states in world politics.<sup>41</sup> But after its full accession to the EU, Cyprus will have additional institutions and mechanisms, through which it will try to shift policies and politics to its own strategic benefits. Cyprus, as a small state that lacks power in the international system, coupled with its neutral past, can serve as a extenuating and moderating influence in the EU's CFSP. Full membership will give Cyprus the opportunity to play a disproportionate - to its size - role by equally participating in the policy-making processes of one of the world's most advanced regional organisations. Nevertheless, Cyprus should also consider the option of joining NATO's Mediterranean initiative, which will not only strengthen the country's role, but may in the long run help reduce the North-South misunderstandings in the region.<sup>42</sup> Being a state that does not constitute a threat to anyone, Cyprus can serve as a reliable interlocutor, a 'political bridge' between the two Mediterranean shores.



The geographic proximity of the island to the unstable environment of the Middle East implies that Cyprus has a strong interest in the utilisation of the EMP. Firmly committed to the principles and objectives of the Partnership, Cyprus is determined to contribute actively to the joint Euro-Mediterranean task of turning the region into an area of peace and stability. As the Cypriot Foreign Minister emphasised: 'In order to maximise the results of our efforts, we will not hesitate to make full use of all of our assets, that is, our central geographic location in the Mediterranean, our good relations with our neighbours in the Eastern Mediterranean, our infrastructure and human resources, as well as our prospect for membership to the European Union'.<sup>43</sup> The prospect of accession does not diminish the importance that Cyprus places in the EMP. Rather, it increases its willingness and capability to promote co-operation among the countries of the Mediterranean.<sup>44</sup>

Nevertheless, the official position of the Cypriot government has always been that the peaceful and just solution of the long-standing division constitutes its first priority.<sup>45</sup> It should be stressed that both the Union and the UN consider that the accession process and the achievement of accession itself will facilitate a solution to the Cyprus question.<sup>46</sup> A role that the EU is expected to play is to support the efforts for a viable solution and, in parallel, to provide its knowledge in the stage of negotiations in order for this solution to be in line with the *acquis communautaire*. Although the EU would ideally prefer a solution before opening its membership to the island, even in the absence of a settlement, Cyprus could still become a full member. The Commission has made it clear that if progress towards the Cyprus problem was not reached before the accession negotiations, then the latter should proceed with the legitimate government of the Republic, the one recognised by international law. However successful, these negotiations entail risks,<sup>47</sup> as they could signal the end of attempts to re-unite the island and deteriorate further EU-Turkey relations. Yet, the past experience of Turkish foreign policy reveals that such a scenario may create further instability in the Mediterranean, as this problematic power-actor tends to use regional turbulence to push for its own accession to the EU.

If the primary objective for the creation of the Community was to secure peace, stability and prosperity in the European continent, and the motivation for enlargement is to extend these goals to a Pan-European Union, then the accession of Cyprus to the EU should be seen as a positive step in this direction. On the other hand, a complicating factor in this context is the level of instability exported from Turkey, which in turn undermines the stability of the Eastern Mediterranean and, hence, of the region as a whole. Here, one might ask whether, by excluding Cyprus from entry to the EU, the latter would be cloistering itself from the problem. The answer is in the negative since Greece - itself immediately affected - is also an EU member. Thus, the latter cannot ignore this phenomenon, but should deal with it independently of Cyprus's application.

The peaceful resolution of the Cyprus question may also improve the Greek-Turkish relations. However, the easing of tensions in the Aegean Archipelago will relieve subsequently some congestion in the wider Mediterranean Sea security complex. On the other hand, considering that all past efforts towards a settlement of the Cyprus question have failed, the EU will have made a great step to adopting a new role in international affairs if it is successful in contributing towards a peaceful solution. In this context, the solution of the Cyprus problem and the accession of Cyprus to the EU would affirm the latter's commitment to be decisively involved in the security challenges confronting the Mediterranean. On the contrary, the EU's failure to follow an assertive policy based on its own declarations for the preservation of peace and prosperity of the wider Mediterranean, will further expose the many difficulties involved in the making of a genuinely common European foreign and security policy.<sup>48</sup>

As Cyprus's accession gathers momentum, it is important that the island be included in the enlarged regional organisation for the benefit both of itself and the EU. Cyprus, with its central geographical position in the Eastern Mediterranean, offers to Europe possibilities for enhancing its political, economic, cultural and strategic interests in the Mediterranean region. The Middle East, an area of enormous significance to Europe, and whose resources are currently wasted in exhaustive antagonisms, is a good case in point. A stable, prosperous and democratic Cyprus has an ideal geographical position to become a springboard to this important market. Cyprus's proximity to the Middle East and its dense economic relations with the Mediterranean countries also imply a great economic interest on the part of Cyprus for the completion of the MEFTA, as was originally inspired by the Barcelona Declaration. The geographical proximity could also become a factor in creating a mutual partnership in the Eastern Mediterranean. The enlargement of the EU to the Eastern Mediterranean would increase its influence and elevate its role to a stabilising player, without extending its external borders to the mainland of Asia.<sup>49</sup> Thus with the full accession of Cyprus to the EU, the island becomes a valuable asset for Europe.

Stability should be considered a pre-requisite for progress and development. This is applicable for countries both large and small. All the more so in the case of Cyprus, which has been living a contradiction between its size and its strategic relevance throughout its millennia of history. The geographic proximity of the island to the eastern and more unstable Mediterranean environment means that, in case of serious instability, Cyprus will be the most vulnerable of all EU states. It is rather supererogatory to retrieve the negative effects of the second Gulf war on the highly sensitive economic sector of tourism, which today has become one of the potential sources of income not only for Cyprus, but also for the majority of Mediterranean countries. In short, being at the outer-edge of the EU's zone of stability, the acces-

sion of Cyprus will sensitise the major actors in European foreign policy to the challenging problems affecting the Mediterranean region.<sup>50</sup>

### Drawing Conclusion(s)

The European landscape has undoubtedly transformed after the removal of the bipolar 'overlay'. The role and performance of small countries like Cyprus will be much depended on how well its policy-architects will understand the implications of the tidal waves for both their domestic and external security and economic policies, in the light of the EU's eastward enlargement. One of the shortcomings of this process for the developing countries is a projection of the benefits that European integration - and its the laboriously evolving *acquis* - offers to its prospective members.

Joining the EU, Cyprus will not only support the puzzling out of its compound security problem but will also unbosom the vast account of regional challengers. However, it will have the opportunity after its accession and its special regional status to play a strategic role in Euro-Mediterranean affairs. By strengthening the Mediterranean dimension of the EU, especially after its prospective eastward enlargement, and by participating in the EU policy process, Cyprus will attempt to influence EU decisions to its own benefit and play an important role in the collective efforts for peace and stability in the Mediterranean. In addition, full EU membership and the peaceful solution of the Cyprus question both challenge the EU declared commitment of 1995 in Barcelona for an unhesitating engagement in the preservation of peace and prosperity of the wider Mediterranean region. The accession of Cyprus to the EU does not diminish the importance that the Republic places in promoting further co-operation in the Mediterranean, based on the values of peace, stability and the peaceful resolution of disputes; values that the EU supports as well.

The Union, a symbol of economic success, political democracy and societal stability, has assumed a controversial, yet pivotal, role during the post-Cold War transition processes of the Mediterranean countries. As long as the latter serve as a border between a wealthy, developed, and stable Europe on the one hand, and a fragmented South on the other, the EU could at best hope to 'keep the fire under control without trying to extinguish it'. But the international role of the Union should aim even higher. Namely, to resist the temptation of remaining an apathetic observer as opposed to a constructive intermediary and, ideally, an effective international problem-solver, should any tidal waves of instability threaten this unique 'body of water'.<sup>51</sup>

The serious challenges arising from the southern Mediterranean rim demand a unitary and coherent response. Currently, the complexity of the Mediterranean

region are such that it is becoming all the more difficult to be confronted, let alone resolved, on an individual basis and, hence, by states acting in isolation from others. Interestingly though, the active engagement of multiple actors in the regional politics may well exacerbate the possibilities for reaching substantive interstate agreement on a number of highly sensitive issues such as immigration, economic aspects of security, external protection of citizens, respect for human rights, and the resolution of protracted conflicts. The engagement/isolation divide thus points in the direction of a 'unitary trap' where certain problems cannot be ignored, but cannot also be solved separately by each partner acting alone. Both strategic orientation and co-ordinated action will prove vital if the fragile stability of the region is to be secured. The adequate institutionalisation of the EMP is expected to provide with the long-needed international setting to manage issues of regional complexity, shape and strengthen the robustness of the nascent Euro-Mediterranean regime and finally, avail the fruition of the Union's new Mediterranean approach.

There are also important implications for Cyprus stemming from the future structure of the EMP. Indeed, the institutionalisation of the EMP will give Cyprus the opportunity of equal participation in international settings and legitimate bodies to decide on the nature and functions of the emerging Mediterranean regime. This may have an impact on the question of agenda-identification (the inclusion of a legitimate claim of a participating member) and, at a latter stage, to that of agenda-setting itself. The latter is achieved through the institutional interaction between the new parliamentary Forum and the dominant decision-making body. There is a normative implication of this dynamic, if not asymmetrical interrelationship, between the newly institutionalised Forum (still of an advisory nature) and pre-existing inter-governmental structures that set up the institutional machinery of the EU. Be that as it may, there is evidence to suggest that the proliferation of legitimate arenas will have an equally important domestic impact on the policy-making strategy of the state concerned, in that it would now have to formulate a multifarious strategy to pursue what itself considers to be its legitimate claims. In any event, it would be interesting for the student of international politics to evaluate the endorsement of an additional parliamentary structure to the workings of a nascent regional regime like the EMP, and assess the extent to which its mechanisms are capable of striking a balance between its declared objectives and particular national interests which, in the case of Cyprus, may take the form of non-bargainable ones.

Cyprus is most likely to be burdened by the historic division of the island, even after its accession to the EU. Participation in the anticipated institutionalised structures of the EMP increases the number of international settings and, subsequently, upgrades Cyprus's role in the regional arena. It will also increase the capacity of the country to build alternative coalitions and alliances, not only with the other EU Mediterranean members, but also with the rest of the littoral countries, as both

share the concerns of the increasing Mediterranean challenges. The institutionalisation of the EMP should provide Cyprus an additional platform from which to promote its legitimate claims and utilise the regional Partnership so as to find a viable solution to the present division of the island. Such instruments will help to the elimination of misunderstandings and the regularisation of relations between the two Cypriot communities, something that becomes very important in view of the free trade area that the EMP declared to create by the year 2010. The adoption of adequate mechanisms and institutionalised machinery for co-operative conflict resolution that have been successfully used in the past (C/OSCE) will avail the fruition of the Barcelona Process objectives, by offering an operationally meaningful political capability. Moreover, the creation of a permanent institutional mechanism to help prevent regional tensions and disputes suit Cyprus's foreign policy priorities and should thus become shared objectives within the EU, not only for the benefit of Cyprus but also for its Mediterranean partners.

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28. Tsoukalis, Loukas, (1998): 'The EU in search of a Mediterranean policy' (in Greek), *Evropaiki Ekfrassi*, No 28, p. 37.

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38. I have recently tried to develop this argument in Xenakis, D.K. (1998), *op.cit.*, p.19.

39. Cyprus lies 380 km from Greece (east of Rhodes), 385 km north of Egypt, 98 km west of Syria and 65 km south of Turkey.

40. Yiankakis, Kasouliques, 'Euro-Mediterranean Partnership', draft paper provided by Costa Apostolides, Deputy Head of the Office for the Study of the Cyprus Problem, to whom I am extremely grateful.

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43. Address by the current Minister of Foreign Affairs of the Republic of Cyprus Yiannakis Kasoulides at the second Euro-Mediterranean Ministerial Conference, Valletta, Malta, 15 April 1997.

44. Yiannakis, Kasoulides, *op.cit.*

45. 'I want to repeat that our dream is to be a member of the Union. But our desperate wish and agony is to see an end to the division of our country and our people. To bring peace, security and prosperity for all the people of Cyprus in a united Cyprus'. Michaelides, A.P., 'Cyprus Accession to the European Union: A Vision and a Challenge for Today', Public Lecture by the former Minister of Foreign Affairs of the Republic of Cyprus on the occasion of the Conference *Cyprus in the European Union*, organised by the European Institute, London School of Economics and Political Science, 30 October, 1996.

46. On the Cyprus problem, the EU has taken a clear and firm position in support of a solution, which will safeguard the sovereignty, independence, territorial integrity and unity of the country, in accordance with the relevant UN Resolutions. The EU position that the status quo imposed in 1974 and the continued occupation by Turkish troops of 37% of the island's territory is unacceptable, was stated in numerous occasions, particularly in the Dublin European Council Declaration (26.6.90) and the Lisbon European Council Conclusions (27.6.92). The joint press release issued after the 16th meeting of the EC-Cyprus Association Council on May 14 1996 stated that 'the EU supports a comprehensive settlement of the Cyprus question in accordance with the resolutions of the UN Security Council'. Moreover, during the UN General Assembly in September 1995 the EU reiterated that 'the status quo in Cyprus is unacceptable', and added that 'the Union continues to follow closely and with interest developments in Cyprus and supports the efforts of the UN Secretary General aiming at a negotiated and comprehensive settlement of the Cyprus question in accordance with the resolutions of the UN Security Council'.

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# THE EUROPEAN UNION AND THE CYPRUS PROBLEM: POWERLESS TO HELP?

Justin Hutchence and Harris Georgiades

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## Abstract

*This paper examines the role of the European Community/Union (EC/EU) in the effort to resolve the problem of the division of Cyprus. It focuses on the latest bid by the EU to achieve progress by linking the development of its relations with Turkey and the Republic of Cyprus with movement towards a reunification of the island. As events have shown, this effort was destined to fail, given the unwillingness of the EU to grant full membership to Turkey, without which Turkey will not even consider a re-thinking of its strategic objectives regarding Cyprus.*

*In the long-term, however, the EU remains well placed to help create a new, more promising relationship between Greeks and Turks, if only it can find a way to push Turkey towards democratisation.*

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## Introduction

This paper is aimed at explaining the problems that the EU has had in exerting its influence towards the resolution of a long-standing international problem on its borders; it is not a paper which is aimed at examining the problems with Cyprus's accession to the European Union. To avoid unnecessary confusion it is important that terms should be defined. The European Union, for the purposes of this paper, will be referred to in the widest possible sense, noting its external policy in the region and attempting to explain the interests that drive that policy. Cyprus also needs careful definition. Since the Turkish invasion of 1974, the island remains divided. The government of the Republic of Cyprus enjoys international recognition, but does not control the northern part of the island. The latter is controlled by the authorities of the self-proclaimed "Turkish Republic of Northern Cyprus" (TRNC), an entity recognized only by Turkey itself.

In many respects this whole paper might come under the umbrella of the 'capa-

bility-expectations gap' approach, put forward by Christopher Hill to explain the problems faced by the EU when it tries to exert itself in the area of foreign policy.<sup>1</sup> At present one could describe the 'capability-expectations gap' as quite low. Since the EU proved its inability to act effectively in its own backyard in the conflict in ex-Yugoslavia little has been expected of the EU as an international actor. However, the EU is of a considerable importance to all the parties involved in the Cypriot dispute and thus it holds a considerable number of cards. Greece is a member state of the EU; Turkey has a Customs Union agreement with the EU; while the Cyprus Republic is currently involved in the process of accession negotiations with the EU. One might have thought that if the EU used its influence strategically, then it could make a positive contribution towards resolving the island's problem.

However the situation that faces the EU is one which is stubborn and long term. Whilst the division of the island of Cyprus has been in place for the last 25 years the dispute between the two communities on the island has existed since 1960, and even earlier. Not only is it a deeply entrenched ethno-political conflict centred on an island but it is also part of a wider conflict between two middle ranking military powers who have a long history of conflict between them.

This paper is aimed at explaining the EU's apparent helplessness in enabling a solution to the division of Cyprus. Despite the economic and political carrots and sticks available to the EU, it seems that the division of Cyprus is, at least for the time being, unlikely to be resolved. The primary reason for this helplessness is the underlying tension over the future of Turkey's European orientation. Whilst the official opinion of the EU is that Turkey could become a member, it appears that there is opposition to Turkish membership on two levels. Initially there are several political and economic hurdles for Turkey to overcome before it can be admissible; issues of human rights, democracy and economic compatibility. Apart from these there is an underlying opposition to Turkish membership which can be seen in statements by European political leaders who argue against Turkish membership on the basis of issues such as Turkey's non-European identity.<sup>2</sup> Turkish politicians note that despite lengthy relations with the EU they have been pushed to the back of the queue for EU membership with the central and eastern European countries overtaking them. Therefore, whilst the Turks still want to join, they see membership as unlikely for some considerable time and therefore consider the preservation of their immediate strategic and political objectives as more significant than seeking a solution to issues of contention with the EU; such as the division of Cyprus.

The paper firstly outlines the problem of the Cyprus conflict, describes the power relationships in the Eastern Mediterranean and details the present situation. Secondly the history of the EU's involvement in the Cyprus problem over the years, and its current strategy is outlined. Thirdly the EU's inability to exert its power in the region is discussed.

### **What is the Problem?**

The legacy of British colonial rule in Cyprus that came to an end in 1960, was a complex and delicate arrangement between the Greek and Turkish communities, which made up 80% and 18% of the total population of the island respectively. What was most needed for these arrangements to work for the benefit of everyone was goodwill and this was notably absent on both sides. On the contrary, both provided plenty of material to the propagandists of the other side, who have always been trying to place the blame for the failure of the new state to make a good start solely in the hands of the other. In 1974, following the period of strife within the Greek community culminating in a coup staged by the Greek junta (1967-74) against the Cypriot president, Turkey found the "perfect" opportunity to invade Cyprus and occupy the northern part of the island (36% of its territory). The Greek-Cypriot population was forced into the southern part of the island while the Turkish-Cypriots moved into the northern part and thus the division remains. The years since 1974 have been marked by successive rounds of negotiations. By 1977 the two sides in the conflict had agreed in theory on a "bi-zonal and bi-communal federation". However, since then there has been no progress towards the practical implementation of the agreement.

The island's division is inextricably bound up with the wider array of problems between Greece and Turkey, which have always supported their fellow communities in Cyprus. Consequently, the antagonism over the division of Cyprus reinforces and is reinforced by disputes over the Aegean, such as the one over the uninhabited islet of Imia (Kardak to Turkey).

### **The Structural International Context**

The region's interrelationships are ordered by Greece and Turkey's membership in a number of organisations. Firstly there is the Greek membership in the European Union which is significant for relationships within the region in general and particularly for dealing with the Cyprus problem. Greece's membership in the EU means that, as far as Turkey is concerned, it is impossible for the EU to act as an impartial mediator in the dispute over the division of the island. Greece has used its position within the EU to promote the accession of Cyprus and has threatened to veto the expansion of the EU to the East if membership negotiations with the Republic of Cyprus do not go ahead according to schedule. In addition, following the dispute between the two countries over the islet of Imia, Greece has also blocked the disbursement of funds that were allocated to Turkey as part of the Customs Union agreement. Therefore it is clear that the EU policy towards the region and towards solving the Cyprus problem is strongly influenced by the Greek membership of the

EU. In addition, Greece is also a full member of NATO and of the WEU.

Turkey has an Association agreement and a Customs Union agreement with the European Union but has recently been left behind in the enlargement process. *Agenda 2000* does not recommend the opening of accession negotiations with Turkey, pointing out a number of political and economic problems that Turkey must resolve before it becomes eligible for membership. Turkey is also a full member of NATO and has associate status within the WEU. This gives Turkey a bargaining chip in negotiations with the EU in that it has to ratify the enlargement of NATO. It has threatened to block such an enlargement unless its own accession to the EU was ratified.<sup>3</sup>

In 1972 Cyprus signed an Association agreement with the EC which came into effect in June 1973. This agreement was quite minimal and mentioned no long term aim of Cyprus becoming a member state. The aim of the agreement was to eliminate trade barriers in two five-year stages that would lead to a Customs Union. However the economic and political repercussions of the 1974 invasion meant that the second stage of association was not signed until 1987. The Republic of Cyprus is also a member of the Council of Europe and the OSCE, but not of NATO or the WEU, opting instead for membership of the Non-aligned movement. However, in line with its application to join the EU, the Cyprus Republic is now pursuing closer relations with the WEU.

### **Present Situation**

On 31 March 1998 the Republic of Cyprus started negotiations to become a member of the European Union. This resulted in heated diplomatic exchanges between the EU, Greece and Cyprus on the one hand, and Turkey and the Turkish Cypriot leadership on the other. The Turkish leadership responded to the event by stating that:

"Turkey has shown...that it will not allow any development which will distance Cyprus from Turkey,"<sup>9</sup>

This response was coupled with the long standing threat to integrate northern Cyprus into the Republic of Turkey if accession negotiations between the Republic of Cyprus and the EU went ahead. In fact on the same day that EU-Cyprus accession negotiations were inaugurated, there was a meeting of the Turkey -"TRNC" Association Council at which an economic union between the two was announced.

In reply Greece rebuffed the prospect of unification between northern Cyprus and Turkey, stating that the whole island would be better off within the European Union<sup>6</sup>. Greece also reminded its European partners that if Cyprus's accession to the EU was blocked because of the division of the island and the Turkish threats

then it would veto the enlargement of the EU to the East.

The affair of the S-300 missiles added to the confrontation for two whole years<sup>1</sup>. The Cypriot claim was that these surface-to-air missiles were defensive and were aimed at countering the Turkish air superiority. Turkey had warned in no uncertain terms that the delivery of these missiles could lead to a pre-emptive strike on its part, something which raised concern for an all-out Greek-Turkish clash. Eventually, in an effort to diffuse tension, the deployment of the missiles on Cyprus was cancelled by Cypriot President Glafcos Clerides.

In the midst of this impasse Richard Holbrooke, the US President's Special Envoy to Cyprus, has been trying to bring the two communities on the island together to resume the face to face talks which broke up in the summer of 1997<sup>8</sup>. After separate talks with Clerides and Turkish Cypriot leader Rauf Denktash, the US envoy announced that there had been no advance on the previous position; with Denktash refusing to resume negotiations unless the TRNC is recognised as a state in its own right. Therefore it is clear that at present the difficulties that surround the Cyprus problem are quite tense and intractable.

### **The Record of the EC/EU Involvement**

Since the invasion of Cyprus in 1974 there have been three distinct periods in the EC/EU's activity regarding the Cyprus problem. These phases can be characterised as, firstly, a period of activism in response to the Turkish invasion, followed by a period of "detached concern" and then recently by a period of increased involvement in the effort to find a solution to the Cyprus problem.

During the initial Cyprus crisis in 1974 and the immediate period that followed, the EC showed an interest in seeing a solution to the Cyprus problem. This was mainly expressed through European Political Cooperation declarations (EPC-the putative form of EC foreign policy cooperation) in support of the work of the UN and the USA to that effect.

From 1976 onwards the Community adopted a stance that has been characterised as one of "detached concern". During these years the initiative was left to the United Nations which undertook successive efforts to mediate between the Greek and Turkish communities of Cyprus in an effort to achieve a resolution of the problem based on the creation of a federation.<sup>9</sup>

The entry of Greece into the EC as a full-member in 1981, altered the political balance between Greece and Turkey, but did not lead to any significant EC activity regarding the Cyprus problem. The EC member-states, with the exception of Greece, were unwilling to agitate Turkey even further, which was already declaring that as far as it was concerned, the EC could no longer be considered as an impar-

tial third party.

Greece, on its part, was not in a particularly strong position within the EC, a result of the foreign and economic policy of the socialist government of Andreas Papandreou. Furthermore, the governments of Athens and Nicosia, did not actually envision and did not pursue an active EC role in the efforts to resolve the Cyprus problem. Instead, they showed a preference for the UN process, coupled with efforts to "internationalise" the problem by bringing it forward to various fora like those of the non-aligned movement.

On 19 October 1987, a Customs Union agreement was signed between the EC and the Republic of Cyprus, despite the division of the island and the fact that the provisions of the accord would not apply to the territory out of the control of the government. After the signing of the agreement the Greek and Greek Cypriot attitudes regarding the EC and its role began to change. The EC was now increasingly regarded as the main framework within which Greek foreign and economic policy would have to be shaped. A basic aspect of this approach was that the efforts to resolve the division of Cyprus should be brought within the "European arena" and this would be achieved through the forging of institutional relations between the Cyprus Republic and the EC. This in turn meant that the government of the Republic of Cyprus, as a follow-up to the Customs Union agreement, should apply for full EC-membership. This was eventually done in 1990, but it was only after 1993, with the coming into power of a transformed pro-European PASOK in Greece, that the "Europeanization" of the Cyprus problem was actively pursued by both Athens and Nicosia.

The opinion of the Commission which was given in 1993, was essentially positive reflecting the fact that the Republic of Cyprus was a European, democratic and prosperous state and confirming its vocation to belong to the Community.<sup>10</sup> However, noting the problem of the division, it refrained from suggesting the immediate start of accession negotiations, suggesting instead the reconsideration of the issue in January 1995. The rationale for this decision was that the eighteen month period until January 1995 should be used for yet another effort to resolve the problem of the division. As a manifestation of the abandonment of the approach of "detached concern", the European Union went further and appointed an observer, Serge Abou, tasked with the monitoring of the behaviour of the parties in the conflict resolution efforts.

It is characteristic of the decision-making process in the Council, that the reconsideration of the Cyprus application became part of a "package deal" involving the EU's relations with Turkey as well. In particular, based on the report of the EU observer, the Council agreed to start accession negotiations with Cyprus six months after the conclusion of the 1996 Intergovernmental Conference (IGC), essentially accepting that the perpetuation of the division was due to lack of political will



on the Turkish Cypriot side.<sup>11</sup> Athens and Nicosia were successful in convincing the EU that not to open accession negotiations with Cyprus because of the division of the island would amount to a double punishing of the innocent side and would also be seen as granting a veto right to a non-member state, in this case Turkey. However, for the Council to take this decision, Greece was asked to withdraw its objection to the signing of a Customs Union and a Financial Cooperation agreement between the Union and Turkey. An overall agreement was eventually reached on 6 March 1995.

What one notes is that in this case the European Union was able to exploit the respective objectives of Turkey and the Cyprus Republic and was able to strike a deal on two very sensitive issues. This diplomatic plan of the French Presidency of the Council of the time received favourable comments and was regarded as an application of an EU leverage on the parties involved in the Cyprus stalemate. In summary, it is important to view the EU's response to the Cyprus problem not as the response of a single political entity but as that of a collection of institutions and member-states coming to a compromise position in response to an international problem. In addition, it should not be seen as a pro-active attempt at solving Cyprus's problems, but as a reaction by the EC/EU to an initial crisis and since then, to the implications of the increasing institutional linkage between the EC/EU and Cyprus. The EU's more recent attempts to resolve the division of the island are aimed exactly at allowing the entry of a united Cyprus in the European Union.

### **The Formulation of the EU Policy after 1995**

The Council decision of 6 March 1995, was indeed a landmark event that signalled the beginning of a period of heightened EU interest in and involvement with the Cyprus problem. To understand the importance of the decision and the steps that followed, it is necessary to examine how the deal was viewed by the various international actors involved in this problematic web of relations. The governments of Cyprus and Greece regarded the deal as an effective exploitation of the established practice of the Union to reach decisions by linking different issues, resulting in the setting of a firm date for the opening of accession negotiations for Cyprus. This, in turn, was seen to have significant positive political implications.

The immediate implication was that the opening of accession negotiations could force an urgent rethinking of Turkish policy and objectives regarding Cyprus. The deeper involvement of the EU and the prospect of a Cyprus membership would thus act as catalysts for the resolution of the conflict and the reunification of the island. In the longer-term, according to the Greek and Greek Cypriot thinking, membership would guarantee that a united federal Cyprus would not diverge from the European political, economic and social norms, that Cyprus would remain a liberal-democrat-

ic, free-market country and that it would be effectively secured against any possible Turkish move in the future.

However, for the Greek side, EU membership for the Republic of Cyprus would be equally important and would be pursued vigorously even if Greek and Turkish Cypriots remained apart. According to the Greek and Greek Cypriot thinking, in this second best scenario, an EU membership would guarantee the continuing existence and progress of the Republic of Cyprus and of the Greek Cypriots, in the face of the threat posed by the Turkish presence in the north of the island. This option is also seen as preserving the prospect that in the future the Turkish Cypriots might decide to join in.

The approach of the EU was in part similar to the Greek and Greek Cypriot approach. The EU has always been aware of the benefits that would result from the membership of Cyprus. Despite its small size, Cyprus has an advanced and dynamic economy with important links with the southern Mediterranean and Middle Eastern countries as well as with Russia and the former Soviet Republics. Thus the membership of Cyprus would not only facilitate the maintenance of the North-South balance within the Union, but would also facilitate the realization of the political and economic objectives of the EU in these regions. In short, Cyprus would constitute a useful EU partner.

These advantages of Cyprus were overshadowed, to a large extent, by the problem of its division. However, following the decision of 6 March 1995, a consensus seems to have emerged in the EU and its member-states, but also in the US which was and remains an important actor in the European political scene, regarding the way that this problem could be tackled. According to this consensus of opinion, the new landscape of relations and commitments of the EU with Cyprus and Turkey offered a unique opportunity to achieve a resolution of the Cyprus problem and ease relations between Greece and Turkey.

The shared view was that during the meantime until the opening of the accession negotiations with Cyprus, the EU was in a very strong position vis-a-vis both the Greek and Turkish sides and could apply significant leverage power upon them, pushing them towards a settlement. In particular, while the EU would be offering full-membership to the Cyprus Republic, it would also explain to its Greek Cypriot government that this was conditional upon flexibility and good-will in the efforts to resolve the problem of the island. At the same time, the Turkish Cypriots would be offered the benefits of EU-membership and Turkey itself an improved position, short of full-membership, but only if they allowed a reunification of Cyprus.

What emerges then, is that in the immediate post-March 1995 period, there was a general agreement that the time was right for one big push towards a resolution of the Cyprus problem. This would then be followed by the accession of a unified federal Cyprus into the EU.

However, it was unclear, at the time, if the EU and its member-states had considered what their strategy would be in the case of a failure of this major diplomatic effort. Specifically, it was unclear if they would really go all the way and accept the Cyprus Republic as a member without a resolution of the Cyprus problem, which as explained, was and remains the alternative objective of Nicosia and Athens. In fact it seems that the EU did not have an alternative strategy at all, while the successful conclusion of this effort depended almost entirely on Turkey; and as events have shown, Turkey has been quite unwilling to play along.

### **The Implementation of the EU Policy**

Since 1995, the EU has been active in supporting the UN process for achieving a comprehensive settlement of the Cyprus question, based on the creation of a bi-communal and bi-zonal federation. As noted above, the EU has been trying to exploit its own relations with the parties in conflict, as well as the prospect for a further development of these relations, in an attempt to achieve a reconciliation between the two communities of Cyprus which would, in turn, enable a wider improvement in relations between Greece and Turkey.

The benefit for the EU itself is self-evident. The EU would have facilitated the resolution of a complex and long-standing problem in a region which is vital for its own interests, establishing its credentials as an effective international actor, and opening the way for a much less problematic development of its relations with both Cyprus and Turkey.

However, four years on, success has not been forthcoming. The EU has been at pains explaining and emphasising to the Turkish Cypriot leadership, all the benefits of membership, especially the economic ones. Even though the US is also part of this effort, Rauf Denktash remained absolutely unmoved during the Summer of 1997 New York and Geneva meetings with Glafcos Clerides.<sup>12</sup> The Turkish Cypriot leader was equally negative in his response to the invitation extended by the Cypriot government, right after the re-election of Clerides in February 1998, for equal participation of Turkish Cypriot representatives in the negotiating team of the Cyprus Republic in the EU accession talks. However, to understand the stance of Denktash, it is important to have in mind the wider Turkish policy regarding Cyprus.

### **Turkish Policy and Objectives Regarding Cyprus**

Since 1974, the territory occupied by the Turkish army has become increasingly integrated with and dependent on Turkey, both in political and economic terms. In addition, thousands of mainland Turks have actually settled in northern Cyprus, while the Turkish military presence has remained very high.

These developments are directly related to the perceived national and strategic Turkish interests. Firstly, these involve the security and self-rule of the Turkish population of Cyprus. Secondly, and probably more importantly, the security of Turkey itself is considered to be dependent upon Turkish control of northern Cyprus.

From Ataturk onwards, Turkish political and military leaders have repeatedly been making the point that in the hands of a hostile power, as Greece is perceived to be, Cyprus would become a "dagger pointed at the soft underbelly of Anatolia".<sup>13</sup> To avoid such an eventuality, the Turkish military establishment and the majority of the political elite of the country considers the control of northern Cyprus and, through the presence there of a large military force, the strategic control of the whole island, as an absolute necessity.

In the words of Bulent Ecevit who, as Prime Minister, ordered the 1974 invasion: "Cyprus will become either a guarantee of or a source of threat to Turkey's entire southern shore...".<sup>14</sup>

One can speculate that only if Turkey found itself under enormous pressure, or if it were offered a compensation of great substance, would it be willing to even consider a change to its Cyprus policy.

### **The EU - Turkish Relationship**

For the EU, Turkey is a country of great significance. Turkey is located at the cross-roads of the geo-politically and geo-economically sensitive and important regions of the Caucasus, the Balkans and the Middle East. Its secular organisation and western orientation are seen as attractive alternatives to the more radical Islamic regimes of the region, while the size of the Turkish economy makes it an important prospective market for European exports.

At the same time, however, the EU notes the existence of several problems regarding Turkey. The Turkish economy has not been able to develop sufficiently and equitably enough, while the Turkish population keeps growing rapidly, resulting, among other things, in a steady emigration of Turks into Europe. The Turkish state is seen to be engaged in a long and vicious civil war with Kurdish groups, while the level of democracy and respect for human rights in the country are well below European standards.

Given these realities, the aim of the EU over the years has been to keep Turkey as close as possible without actually offering it full membership, at least in the foreseeable future. For the Europeans, the Customs Union agreement of 1995, was a step in this direction. For the Turkish side, however, the Customs Union was seen as just a temporary stage before an actual full membership.

As is explained by Seyfi Tashan, Director of the Foreign Policy Institute of the Turkish Foreign Ministry, the Turkish participation in the Customs Union but not in the decision-making mechanisms of the single market on matters concerning the economy, commerce and other major policies, is untenable on a permanent basis. The Customs Union would, then, have to "be transformed into full adhesion as soon as it is possible and feasible for both sides."<sup>15</sup>

The disagreement between the EU and Turkey concerning the objectives of their relationship and their expectations from it reached a climax following the publication of the Commission *Agenda 2000* report of July 1997, and the Luxembourg European Council meeting of December 1997. The EU had decided to inaugurate accession negotiations with a group of five Eastern European countries and also with the Cyprus Republic. The same did not apply to Turkey. Instead, it was decided that the further development of EU-Turkish relations would be dependent upon Ankara meeting a set of rules and principles, mainly concerning the respect of human rights, democratic institutions, borders and international law. The most that Ankara was granted was a seat in the European Conference which would bring together the representatives of all member and applicant governments in an essentially ceremonial meeting.

Turkey reacted angrily to these developments, and did not participate in the European Conference which took place in London, in March 1998. For the Turkish leadership, the EU was discriminating against their country, mainly on the grounds that it was an Islamic country while the EU was a "Christian club".

Various responses came from Europe, denying the Turkish accusations and pointing out that the EU conditions were nothing more than the self-evident prerequisites for the participation of a country in the European unification process. In a typical response British MEP James Moorhouse, a member of the Joint EU-Turkey parliamentary committee, stated that:

"Turkey's membership of the European Union is not being held back because Turkey is a non-Christian state. It is being held back because Turkey is not a liberal democracy".<sup>16</sup>

### **Powerless to Help**

The important point for our analysis is that the political realities of the EU system and of the Turkish Republic do not allow the forging of those institutional relations, which amount to nothing less than full membership for Turkey that could raise the possibility of Turkish concessions in Cyprus. Neither the carrot nor the stick of the EU appear to be substantial enough to cause this change in policy, without which the whole diplomatic "master plan" put forward after 1995 will fail. Consequently, the

EU approach seems to have reached a dead-end, and the Union is once again powerless to help.

Far from achieving a breakthrough, the Turkish side has actually hardened its position, by openly declaring what until recently was its concealed objective: that Cyprus will remain divided, that the north will be integrated with Turkey and that the only future negotiations could be between two internationally recognised, sovereign states of the island of Cyprus. The Turkish Cypriot leader Denktash, during a press conference attended by Turkey's Foreign Minister Ismail Gem, on 31 August 1998, formally declared that the only scope for future negotiations was the creation of some kind of confederation between the two states of Cyprus.

### **Conclusions**

Several conclusions can be reached regarding the involvement of the EU with Cyprus and its latest bid to help towards a reunification of this divided island.

Firstly, the EU has been drawn over the years into a closer involvement with the long standing and complex political problem of Cyprus as a result of the pursuit for and the forging of institutional relations with the states involved in the conflict. The application by the Cyprus Republic for full-membership and the fact that this became the number one foreign policy objective for the Cypriot government, was instrumental in engaging the Union with the efforts to resolve the problem of the division of the island.

Secondly, as the "package deal" of 1995 shows, the EU is still not quite able to formulate a long-term strategy when it comes to "high politics" and specifically to issues with foreign and security policy implications. Rather, its decisions are largely the result of political bargaining, linkage of different issues and, ultimately, the achievement of a convergence of different national and Community interests.

Thirdly, the attempt by the EU, with the support of the US and the UN, to broker a resolution of the conflict by offering the benefits of full-membership to the Turkish Cypriots and a very "special" relationship to Turkey, in exchange for concessions in Cyprus, as part of a grand "political bargain" has not been successful up to this point because of the overriding Turkish strategic considerations regarding Cyprus.

And fourthly, the development of EU-Turkish relations, an essential aspect of the EU approach towards the Cyprus problem, is adversely affected by other problems as well. Turkey's level of political and economic development is not up to EU standards, so what the EU can offer Turkey in terms of institutional relations is limited, not to mention the "cultural issue" that seems to lurk in the background.

For the time then, the EU is not finding it possible to use its influence with the

states involved with the Cyprus problem in a way that will lead to a resolution of the problem. However, the involvement of the EU has not been counter-productive, despite the apparent hardening of the Turkish position, and in the long-run the EU remains best suited to help create a new kind of relationship between Greeks and Turks.

The essence of European integration is that it forms a unique association between prosperous liberal democracies, thus creating an area of peace, democracy, stability and development. The challenge for the EU is to achieve an expansion of this area into the troubled Eastern Mediterranean. The accession of Greece back in 1981, the probable accession of the Cyprus Republic in the coming years, and, the highest price of all, the accession of Turkey, when it becomes a prosperous liberal democracy, will make this ambitious aim a reality.

The extent to which the EU policy, as expressed by the European Council at Luxembourg, will be successful, will depend largely on the EU stance from now on. The EU and its member-states should be firm in upholding the conditions set at Luxembourg, but generous and flexible in their rewards to Turkey when it displays real progress on these issues. To side step these conditions would be as wrong as the consideration of issues of religion and culture in the shaping of the EU policy regarding Turkey.

It is only under conditions of democratic peace and stability that the problem of the division of Cyprus could be resolved. The future role of the EU then, is none other than encouraging, helping, urging, pressurising and sanctioning Turkey, until its leadership accepts to shed the legacy of the past and truly comprehends and shares the vision of European integration. Sadly, for the time being, this is more of an aspiration and less of a real prospect.

### Notes

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# THE ECONOMICS OF ENLARGING THE EUROPEAN UNION: POLICY REFORM v TRANSFERS

Phedon Nicolaides

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## Abstract

*This paper argues that the prospects for policy and Financial reform in the European union are not very bright. The debate on policy and financial reform appears to have ignored the economic benefits from integrating the applicant countries of central and eastern Europe and Cyprus into the EU. The discussion on policy reform has also lost sight of the fact that reform is needed irrespective of whether the Union enlarges or not. The EU member states that stand to gain most significantly from enlargement are largely those that have complained about their budgetary imbalances. If in the process of the financial negotiations within the EU they obstruct enlargement, they risk losing the economic gains from enlargement. The Union's financial system needs more ambitious and extensive reform than what has been put on the table so far. As the membership of the Union expands it will be progressively more difficult to satisfy all the member states by devising policies that offer something to all. It would also be difficult to implement a financial system that is based on the complex arrangements of the present one.*

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## Introduction

The forthcoming enlargement of the European Union has been directly linked to the successful reform of major policies of the Union. In fact, intra-EU policy and financial reform are seen as a precondition for enlargement. Indeed, there is hardly any doubt that the Union will not be in a position to receive new members without extensive reform.

However, the discussion that has unfolded so far on how to modify policies and the financial system of the Union can be criticised in three respects.<sup>1</sup> First, it has virtually ignored important economic effects of the accession of new members. Second, it has exaggerated the link between their accession and reform. And, third, it has pitched the debate in terms of who gains and who loses from enlargement.

Economics makes a distinction between allocation of resources, distribution of income and monetary transfers. The public discussion on the "economics" of enlargement mixes the reasons for policy reform with the relative gains and losses of each member state. This mixing of issues concerning allocation of resources with questions about transfers obstructs our understanding of the full extent of the impact of enlargement on the economies of the existing and prospective new members.

The allocation of resources is the outcome of the interplay between supply and demand while the distribution of income is the resulting effect on the income and wealth of labour and the owners of the factors of production. Transfers among the member states of the European Union may or may not have a direct effect on resource allocation. However, as it happens, intra-EU transfers do influence resource allocation, even though there are good arguments against such resource-based transfers.

The objective of this short paper is threefold. First, it explains what exactly we mean when we refer to the economics of enlargement. The debate on policy and financial reform has virtually ignored the important fact that the Union as a whole would experience significant economic gains from enlargement.

Second, it considers why policy reform is necessary for successful enlargement and identifies the reasons for which reform would be necessary even if the Union would not receive any new members.

Third, it explores the possible consequences of the fact that the issue of policy reform has been dominated by concerns about intra-EU transfers. In an attempt to placate those member states which have complained that they pay too much, recent proposals could introduce more inefficiencies and disparities within the EU.

The paper begins with the following section which examines the dimensions of a proper study of the economics of enlargement.

### **Analysing the Economic Effects of Enlargement**

When countries liberalise their economies by removing barriers to trade, resources are reallocated to the activity in which the value of the output is maximised. This is the reason why liberalisation in general improves efficiency (i.e. resources are put to a "better" use) and raises overall economic welfare. Similar effects are experienced by countries that integrate their economies by removing bilateral barriers to trade.

However, in the case of bilateral liberalisation, as opposed to multilateral liberalisation, the partner countries experience at the very minimum two different and conflicting effects: trade creation, which is the availability of products from the partner country at lower price, and trade diversion, which is the displacement of products from third countries by partner country products. Trade creation raises economic welfare while trade diversion lowers it. This means that the overall net effect of integration depends on the relative magnitude of trade creation and diversion. So the economics of integration, or enlargement in our case, is concerned primarily with the net effect of the overall allocation of resources within the partner countries.

There are also a number of other effects which complicate significantly any definitive assessment of the net effect of economic integration. For example, partner countries may benefit from a favourable shift in their terms of trade with third countries (i.e. they acquire market power), or the "cold shower" of competition may raise their productivity and stimulate growth, or, oppositely, their regions may experience a decline in economic activity as companies are attracted to the centre of the integrated area. So in addition to trade effects there are many others including competition (internal and external) effects and investment effects. Once the movement of factors of production and capital are included in the equation and once the cumulative growth influences are taken into account, it becomes very difficult to make prior pronouncements about the effects of integration on partner countries, their regions and industries.

It is not surprising, therefore, that there is as yet no study that has attempted to evaluate all of the possible effects of integrating the countries of central and eastern Europe into the EU.<sup>2</sup> In this context, the most comprehensive study on the economic effects of enlargement and the distribution of losses and gains was published last year by the Centre of Economic Policy Research.<sup>3</sup> Let's consider briefly the main findings of that study.

The CEPR study tried to measure the changes in real income (measured in terms of Gross Domestic Product) arising from several sources of change analysed in three stages.

The first stage examined the repercussions of (a) the complete elimination of tariff barriers in bilateral trade including agricultural trade and (b) the adoption by the CEECs of the common external tariff [which is lower than their own tariffs on third country products]. The calculations of the first stage were based on the assumption that the CEECs would adopt all of the EU's standards [health, safety, technical] and would comply with the rules on competition and state aid. The estimated effect on real incomes was an increase of 1.5% of GDP for the CEEDs and 0.2% of GDP for the EU15.

The second stage attempted to expand the analysis by calculating explicitly risk premium effects and investment effects. The integration of the CEECs in the EU will make them a less risky place for inward investment. The CEECs have lower labour costs than western Europe, which attracts capital, but foreign capital will not be invested in factories and other businesses if the economic and political climate there is unstable. So, the reduction of the perceived risk is hypothesised to lead to a reduction in risk premium which in turn will reduce the relative return demanded by foreign investors and will eventually stimulate foreign direct investment. FOi is one of the main channels through which technology and know-how are transferred from one country to another. The estimated effect on real income was an increase of 19% for the CEECs and still 0.2% for the EU15.

In the third stage, the authors of the CEPR study took into account the EU funds that would be drawn by the prospective new members. The funds that will be absorbed by the new members are perceived as a cost to be borne by the existing members which will either have to pay [if they are net contributors to the budget] or have to forgo [if they are net recipients from the budget]. This is a transfer issue.

In calculating the potential amount of EU funds that would be drawn by the new members, the CEPR study relied on estimates from previous studies. As is well known, these estimates vary widely, depending on the assumptions of the researchers concerning growth rates, the applicability of existing agricultural policy rules in the CEECs, the trends in productivity in the CEECs, the trends in world prices, the absorption capacity of the CEECs, etc. The amounts that were expected to be needed by the CEECs in the areas of agriculture and structural operations ranged from ECU 40 billion to ECU 80 billion per year. Having considered the budgetary politics of the EU, the CEPR study reached the conclusion that the ten CEECs would receive from the budget ECU 24 billion and contribute ECU 9 billion, so that they would be net beneficiaries to the tune of ECU 15 billion.

Since the next enlargement is unlikely to include all of the applicant countries, the CEPR study concludes that the net cost [benefits less than transfers] to the EU15 will range from zero to at most ECU 10 billion. This is because the estimated benefits from economic integration, which amount to 0.2% of EU15 GDP, are about ECU 10 billion. By contrast the CEECs gain considerably.

These forecast results, like all empirical results, depend on the assumptions behind the calculations. Although the assumptions about the EU15 appear reasonable, those concerning the CEECs are dubious in one important respect. The CEECs are presumed to be in a position to adopt quickly and costlessly EU health, safety and technical standards. This is a rather far fetched expectation which exaggerates the potential benefits of the CEECs, at least in the medium term.

These calculations also show that the overall numbers hide a very uneven distribution of benefits among the EU15. More than 75% of the economic benefits will be reaped by just four countries: Germany, France, Britain and Italy. Germany alone stands to gain over a third of the EU15 benefits. The existing member states which are net recipient in budgetary terms "lose out" twice: they reap much fewer of the gains from economic integration and in addition they will receive less from the EU budget since some EU funds will be diverted to the new member states.

Economics suggests, however, that as long as overall gains are positive there can be, at least in principle, a system of transfers that leaves no one worse off. Recent Commission proposals for reform of the common agricultural policy, the structural funds and the financial system virtually ignore that the EU as a whole would gain both from the integration of the CEECs in the EU and from the reform itself. So by focusing on relative gains and losses those proposals compound the confusion between the overall gains from integration with the distribution of those gains.

#### **Policy Reform to Prepare the EU to Accept New Members**

Policy reform has been directly linked to the impending enlargement of the European Union. To some extent that linkage is both justified and correct. The Union is not in a position to apply its main policy instruments in their present form to the countries that have applied for membership. The reasons are well known. In brief they are (a) the low per capita income and more intensive agricultural orientation of those countries and (b) the massive increase in the Community budget that would be needed if existing policy instruments were to be applied to new members. The end result would be a politically unacceptable growth in the budgetary contributions of richer member states and a concomitant economic dislocation in the prospective new members, caused by shift of resources from industry to agriculture and from consumers to farmers.

However, present policies are in need of reform even if no enlargement would take place. To hitch all arguments for reform on enlargement, is tantamount to minimising the internal weaknesses of those policies and maximising the significance of the redistributive effects of the accession of new members.

In the Agenda 2000 and subsequent documents, the Commission indeed acknowledged that reform of the common agricultural policy is inevitable.<sup>4</sup> WTO negotiations on further liberalisation of agricultural trade are scheduled to start in 1999, while world food prices are not predicted to rise significantly. Both of these developments suggest that the present policy, if continued unchanged, will lead to the re-emergence of food surpluses with considerable waste of Community resources.

Characteristic of the neglect to account of and emphasise the gains to EU itself from reform of the CAP is the belated publication [more than a year after publication of Agenda 2000] of a Commission-sponsored study carried out by the Universities of Amsterdam and Bonn on the impact on incomes from CAP reforms. Researchers at the two Universities found that if the Commission's plans were adopted household food bills would be cut by at least 2% and EU GDP would rise by 0.2-0.4%.<sup>5</sup>

The Commission plans centred on a reduction in intervention prices by 10-30% and an increase in direct income support. In addition, the Commission argued that its proposed changes could be implemented within the framework of the existing CAP guideline which allows CAP expenditure to grow at 74% of the EU's GNP growth.

Two questions, however, have been left unanswered.<sup>6</sup> First, will farmers continue to receive public assistance indefinitely, irrespective of what they produce or whether they remain full-time farmers? Second, farmers in the new member states will not be eligible to receive direct income support. How will the CAP function if it is based on non-uniform principles?

With respect to structural operations, the Commission correctly points out that it does not make much sense to aim to reduce income disparities when at present over 50% of the EU population is eligible for support under objectives 1, 2, 5b and 6.<sup>7</sup> The Commission, therefore, proposed to replace the current seven objectives with three and to concentrate structural operations so that the new objectives 1 and 2 would cover only 35-40% of the EU15 population. Again it has maintained the ceiling for structural funds which stands at 0.46% of the EU's GNP.

However, the Commission included Canary islands and the present objective 6 regions under the new objective 1 and accepted that these would be transitional arrangements for the regions that lose EU funding. These arrangements could last until virtually the end of the next financial perspective in 2006. Hence, the fudging of the boundaries of the various objectives has already begun.<sup>8</sup>

Although member states' views differ significantly on the proposed reform of the CAP and structural operations, it is on the budget that the battle lines have been drawn most starkly. The Commission argued in Agenda 2000 that it would be possible to accommodate new member states within the present budget ceiling of 1.27% of the EU GNP. Its calculations purported to show that the new member states could receive over EUR 17 billion in 2006 and the EU would still have a contingency budgetary margin of about 0.3% of GNP.

Four member states, Austria, Germany, the Netherlands and Sweden, have

declared that they also "want their money back" as the UK. Until very recently, the Commission had never acknowledged that there was such a thing as a "net contribution" problem. This policy appears to have changed with the publication at the beginning of October 1998 of a document on the financial system of the European Union.<sup>9</sup> Now the problem of financing enlargement is compounded by arguments as to who should pay for it.

### **Financing the European Union**

Despite arguments about the unfair budgetary burden borne by some member states, the financial system of the EU has become more equitable. Equity in this sense is indicated by the member states' capacity to contribute to the financing of the Community's activities. The EU derives its revenues from four so-called "own resources": customs duties, levies on agricultural imports, a part of the VAT receipts of member states and contributions based on the size of the member states' GNP. The first two resources are also called "traditional" own resources. In 1988, the shares of the four financial sources in the EU budget were as follows: customs duties and agricultural levies (29%), VAT (60%) and GNP-related payments (11%). In 1999, it is forecast that the composition of revenue will have changed as follows: customs duties and agricultural levies (16%), VAT (35%) and GNP-related payments (48%). Since VAT is a tax on consumption it is a regressive form of taxation. The poor pay proportionately more of their income than the rich. Therefore, the relative increase of the share of the GNP-related payments has injected more equity in the system because it reflects more closely the wealth and thus the capacity to pay of the member states.

The four net contributing countries mentioned above pay net amounts (after the UK rebate) which are equivalent to 0.6% of the GNP of Sweden, 0.6% for Germany, 0.4% for Austria and 0.3% for the Netherlands. The UK, before it receives its rebate, pays in the EU budget a net amount equivalent to 0.3% of its GNP.

Three observations have to be made at this point. First, budgetary balances have little to do with gains and losses from EU membership.<sup>10</sup> For example, in 1997 the share of traditional own resources (duties and levies) in the overall revenue of the EU was 19%. The overall contribution of the Netherlands to the total budget was 6.4%. However, the Dutch share in the traditional own resources was 12.2% of all the member state payments in the form of duties and levies. Traditional own resources represented 36% in the total Dutch payments, almost twice as much as the Community average. The reason is that the Netherlands collects the customs duties at the port of Rotterdam which is the main commercial entry point into the EU. Ironically, the Dutch government appears to have forgotten that until the early 1990s the Netherlands was a net beneficiary.

Moreover, it has been estimated that about 40% of the expenditure on investment projects capital equipment co-financed by structural funds in the cohesion countries flows back to the richer member states because they are the main producers of capital equipment and providers of business services.<sup>11</sup>

Close examination of the budgetary arrangements of the EU reveals that not only do they convey little information as to the overall net costs and benefits of EU membership, but in some respects they actually distort the real impact of membership. For example, a significant part of the national contributions are based on the VAT system of indirect taxation. At present, the VAT system functions according to the "destination" principle which taxes goods and services at the place of their consumption. This requires that exports are zero rated. The consequence of this zero rating of exports is that the total VAT revenues of a net exporting country are lower than they would otherwise be, but its national income is not. Correspondingly, the revenues of a net-importing country are higher than they would otherwise be, but its national income is not. Although there is agreement among member states that by 1999 the VAT own-resource of the EU will be capped at 1% of the VAT receipts [which means that payments into the budget reflect more closely the capacity to pay], until recently net-importing countries which were by and large poorer countries were contributing more than their true capacity to pay.

Second, the UK rebate is an anachronism. It was introduced at the time when the CAP absorbed over 70% of the EU expenditure [the UK had a relatively small agricultural sector], most of the UK external trade came from outside the EU and tariffs were at much higher levels [both of the last two factors meant that the UK paid more tariff revenue into the EU's coffers]. At that time, the UK did indeed pay proportionately more money into the budget and received proportionately less. The situation has changed significantly. In 1997 the share of the UK in the financing of the EU was 12% while its share of the overall Community GNP was 16%. It is the country with the largest difference between its capacity to pay and its actual payments.

Third, with the exception of the UK, the remaining member states have a rough parity between the size of their GNP and their shares of the EU revenue (VAT and GNP-related contributions). This means that deviations from that rough parity are caused mainly by two factors: (a) the traditional own resources, on the revenue side, and (b) the agriculture policy and structural operations, on the expenditure side. When considering how to restore that parity, the traditional own resources should present no major problem because the relatively higher contributions of the Netherlands and Belgium are, one would say, fictional as these countries would not collect tariffs on behalf of the rest of the EU if the EU did not exist. So this kind of money does not exactly belong to them.



A more serious problem is the targets and direction of EU spending. The Commission, in its document of October 1998, considered without formally endorsing the "renationalisation" of part of the CAP spending. The reasoning is that the CAP still absorbs half of the EU budget. If Community spending on farmers is reduced, the net contributors will also experience a reduction in their overall payments to the EU. On the basis of the information provided in the document it is not possible to say whether that would indeed be the outcome for the net contributors. The benefits from the CAP are notoriously skewed. It has been estimated that about 80% of the benefits go to only 20% of the farmers.<sup>12</sup> This is because large farmers and farmers of temperate products (which receive relatively more support) gain disproportionately from the CAP. It remains to be seen whether re-nationalisation will redress budgetary imbalances.

However, if re-nationalisation is accepted as a principle, it would not necessarily work just on its own. It would probably have to be accompanied by supplementary measures to prevent member states from cheating [e.g. subsidising too much]. Perhaps a new layer of bureaucracy will have to be established. That would raise the operating costs of Community policies, but the real costs would be hidden as they would not appear on the EU budget. So in the process of addressing budgetary imbalances there could be substantial waste of resources, not because administrative mechanisms are inherently wasteful but because the EU could have reduced those imbalances directly by lowering support to farmers.

The main problem with the idea of re-nationalisation is that it opens the flood gates for using the budgetary spending and Community policies to balance national payments and receipts. Indeed this was suggested in a recent report by the Court of Auditors on the Union's financial system.<sup>13</sup> But, if what member states get out of the budget is equal to what they put in, it would make a mockery of the principle of economic and social cohesion. A case in point is the possibility, considered in the report of the Court of Auditors, of extending the system of the UK budgetary correction to all member states that experience budgetary imbalances. After all, the 1984 Fontainebleau agreement that introduced the UK correction mechanism opened it to "any" member state with serious imbalance. If that correction would apply to other member states and if the extra cost would be borne by the remaining member states, the latter [most of which would be the relatively poor member states] would have to pay an extra ECU 12 billion into the EU budget.

An arrangement whereby member states' payments and receipts balance out would also contradict the rationale for Community action. Community activities are supposed to achieve particular policy objectives. By spreading spending across member states, Community policies will be prevented from focusing on their targets. It would also create a financial system which is even more complex and diffi-

cult to understand than the present one.

A far better long-term solution is, first, to eliminate the idea that the EU budget depends on national contributions and, second, determine spending according to whether the recipients indeed comply with objective eligibility criteria. Even though revenue is derived from the so-called own resources [which means that they belong to the EU], member states still do their sums as if the budget is an accounting system in which each member state's receipts and payments must balance out. Probably the best way to streamline the budget on the revenue side is to empower the EU to levy a tax to be calculated on the basis of the contributory capacity of each member state [a proxy for this capacity is the size of the national GNP]. However, that would require a unanimous decision which, as the history of the EU suggests, would be quite difficult to achieve.

#### **Conclusion: What Kind of Reform?**

Undoubtedly, some of the statements by the member states and the Commission could be characterised as relatively harmless pre-negotiating posturing. They cannot be expected to reveal their true positions before they start, what most observers believe that will be, tough negotiations. However, rhetoric is not costless or riskless. Member states are in danger of being held hostage to their own statements by domestic lobbies and special interest groups. It is one thing to be sensitive to the needs of national lobbies, but a totally different thing to allow EU policy to be determined by these lobbies.

This paper has argued that for the following reasons the prospects for policy and financial reform are not very bright. First, the debate on policy and financial reform appears to have ignored the economic benefits from integrating the CEECs into the EU. Those benefits are generated by the more efficient allocation of resources.

Second, the discussion on policy reform has also lost sight of the fact that reform is needed irrespective of whether the Union enlarges or not. The right kind of reform will itself improve the allocation of resources within the Union.

Third, the countries that stand to gain most significantly from enlargement are largely those that have complained about their budgetary imbalances. If in the process of the financial negotiations within the EU they obstruct enlargement, they risk losing the economic gains from enlargement.

Fourth, some of the ideas put forth for policy reform and for the correction of financial imbalances are dangerous in the sense that they have the potential of creating precedents that they will undermine the principle of cohesion and will lead

directly or indirectly to non-uniform application of Community rules. They may create divisions and discrepancies either among the existing member states or between the existing and prospective member states.

Fifth, the Union's financial system needs more ambitious and extensive reform than what has been put on the table so far. As the membership of the Union expands it will be progressively more difficult to satisfy all the member states by devising policies that offer something to all. It would also be difficult to implement a financial system that is based on the complex arrangements of the present one.

It would be very ironic indeed if in their attempt to reduce the perceived "cost" of enlargement to be borne by each member state, the Union ended up creating such a complex system that facilitated agreement now by giving something to every member but at the same time made a system that ultimately would prove to be unworkable when new members enter the Union. After all, the purpose of the current policy and financial reform is to prepare the Union to accept new members. It appears that reform is going the opposite way, even though it may facilitate the enlargement process in the short term.

In conclusion, the debate on policy and financial reform has too narrowly focused on relative gains and losses. The challenge of the enlargement is not just how to accommodate new members; rather, it is how to improve the policy efficiency and financial effectiveness of a Union that will soon become truly European in a geographic sense.

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### Notes

1. This Paper was written before the Berlin European Council (24-25 March 1999) at which agreement was achieved on the budget of the EU for the next seven years and on reform of the common agricultural policy and the structural funds. However, despite that agreement, the criticisms of the inherent weaknesses of the Community's budget are still valid.

2. Eleven countries are now involved in the process of acceding to the European Union. Ten central and east European countries [Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia] and Cyprus. Turkey has been found eligible for membership but it is not involved in that process. Malta was also found to be eligible for membership but until recently it

froze its application. The EU will soon consider how to re-introduce Malta in the process of enlargement. The CEPR study which is examined in this section has not covered Cyprus or Malta. For this reason the paper refers only to the CEECs.

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11. See the *First Report on Economic and Social Cohesion* cited above.

12. See the *First Report on Economic and Social Cohesion* cited above and Denton, "An EU Perspective on Financial Transfers" cited above.

13. Court of Auditors (1998) *Special Report on the System of Own Resources Based on VAT and GNP*, No. 6/98, July.

# Commentary

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## Technology and Innovation Policies in Europe - Lessons for Cyprus?

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The Cyprus Government has recently engaged in a policy of promoting the creation of "high-tech" businesses on the island. A first step in that direction will be the creation of a "business incubator" and a "research and development centre"; other measures could include the setting-up of a "science park" and the attraction to Cyprus of "strategic investors" like Israeli "high-tech" companies. These efforts are certainly commendable, but it may be useful to consider the European experience, to obtain some relevant insights on the matter, even though the situation in Cyprus may not be directly comparable to the industrial core of Europe (the reduced size of its economy and its peripheral location in Europe probably explain the almost total atrophy of its research and development (R&D) infrastructure).

Throughout the Western economies, innovation policies have become increasingly important in recent years because they represent the only way in which firms and regions can face the challenges of the global economy through the stimulation of their own endogenous potential. Increasingly, technology and innovation policies are seen within the context of regional territories, involving actions by local institutions and focussing on small - and medium sized enterprises (SMEs).

Thirty years ago and up to the end of the eighties, technology policies in Europe were mainly focused on larger projects involving big companies, large research centres and universities. Within this "linear model" model of technological innovation, it was assumed that large sums invested into R&D projects (including basic science) would automatically "trickle down" into industry, where they would be translated into new commercial products and innovative production processes. This first generation of technology policies was based on large infrastructures and the attraction of R&D intensive companies (often multinationals) through a whole range of incentives such as subsidies and tax concessions.

During the late eighties and early nineties, the policy focus changed towards supporting the "software" of the development process. This second generation of technology policy aimed at stimulating the innovation capacity of firms (with special emphasis on SMEs) through technology transfer schemes and networking programmes encouraging the diffusion of new technologies from R&D institutions and larger firms. Typically, measures included business incubators, innovation centres, technological institutes and training centres.

In the last five years, a third generation of innovation policy has been developing at a rapid pace. This time, the engine of growth derives from the dynamics of networks of firms and institutions from the region as well as from strategically complementary territories. Entrepreneurial and territorial competitiveness is promoted through new patterns of collaboration amongst competing firms and between firms and technology providers. The accent of the new innovation policy lies in the "organisation-ware" which offers individual SMEs a credible alternative to isolated efforts in the field R&D. Unlike the "linear model" in which the central administration played a crucial role, the latest type of innovation policy recognises the role of the local community through its institutions and business organisations that now participate in the process of decision-making concerning public and private investments. Public managers are in charge of the organisation of growth, they play a key role in developing and strengthening networks and co-operation agreements between firms. The recent development of the Welsh region is a case in point (Cooke and Morgan, 1998).

The evolution of technology and innovation policies during the last three decades reflects the evolution of the economic structure from the "Fordist-type" mass production system to newer forms of "post-Fordist" articulated structures of industrial production. In other words, changes in policy have followed the shift from standardised large-scale production towards customised quality production in smaller batches, which often take place within networks of independent SMEs, which may be spatially clustered. From a theoretical point of view, the new policies derive from the understanding of a clear shift from a linear model of innovation supported by formal, scientific-based knowledge to a "botton-up" interactive innovation model based on networks of actors, mainly SMEs.

This recent shift of policy -from technology to innovation- may have far-reaching implications for countries, like Cyprus, where smaller firms dominate the economic landscape. Indeed, within the linear model, the outcome of large research and technology projects could not benefit smaller firms whose R&D efforts are primarily incremental. The interactive model of innovation changes the rule of the game: research and technology, as such, are not - any longer - the only source of innovation. Increasingly, collaborative synergies and collective learning processes involving a variety of actors such as employees, suppliers, customers, competitors, technical institutes and training bodies, reinforce the innovative capacities of small firms. This offers new possibilities for "non-technological" SMEs, which lack the resources to invest in R&D, and which may now gain the opportunity to innovate in other ways.

The above discussion bears a particular relevance for the case of Cyprus. Indeed, the small "island economy" has gone through a rapid development process



during the last thirty years, by-passing some essential milestones such as the creation of a mature and competitive manufacturing base and the establishment of a meaningful research and technology infrastructure. For this reason, the country never developed high technology-based industrial activities. However, this in itself should not be a worrying fact since what matters most in today's competitive world is productivity and not inputs or scale. A most relevant and interesting contribution in this field has recently been made by Maskell *et al* (1998) who explain how high-cost small nations (like Cyprus to a certain extent) can sustain prosperity in open, low-tech economies.

The argument can be taken a step further, discussing the relevance of, so called, "high tech" industries:

The term *high-tech*, normally used to refer to fields such as information technology and biotechnology, has distorted thinking about competition, creating the misconception that only a handful of businesses compete in sophisticated ways. In fact, there is no such thing as a low-tech industry. There are only low-tech companies- that is, companies that fail to use world-class technology and practices to enhance productivity and innovation (Porter, 1998, pp. 85-86).

The "choice of industry" or forceful government intervention to promote the development of certain "desirable" industries should not be a prime concern for policy makers. Instead, what matters is to help existing and future companies to reach high levels of productivity so as to create localised competitive advantages to raise living standards at home.

Coming back to the case of Cyprus, it appears that careful planning would be needed to assess the needs for targeted innovation policies in selected manufacturing or service industries. The island's economy suffers from a serious handicap in terms of R&D infrastructure and policy. While this needs to be addressed urgently, it may also be true that wanting to attract *per se* foreign "high tech" companies is not a *panacea*. The promotion of local technologically driven industrial activities calls for a well-balanced, sophisticated and long-term policy involving a wide range of actors. In short, a sharp burst of government inspired technological investment is unlikely to sustain significant new growth in the short run and may not bring about the expected long term positive impact on the local economy

The technology gap (i.e. the difference in R&D capacity) between Cyprus and other major European countries is huge and the likelihood that Cyprus may ever "catch up" with its European partners is quite remote. However, this does not mean that Cyprus cannot remain competitive. As the recent Second European Report on Science and Technology indicators (1997) notes:

But what is the real importance of the technology gap? Is there a close relationship between economic differences and technology differences? One could for instance argue that not all regions need to be technology "leaders" in order to be economically profitable. Some might profit from technology adoption, others might focus on innovation in a non-technological sense" (p. 346).

The European experience offers much food for thought for policy makers in Cyprus to implement a balanced mixture of measures that will be instrumental in generating spin-offs in terms of employment and sustainable long term growth.

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## Faith in History: Armenians Rebuilding Community

by Susan Paul Pattie, Smithsonian, (Washington D.C., 1997) 282 pp.

Although I have several Armenian Cypriot friends, my knowledge of the Armenian community in Cyprus has been rather limited and, as it turns out, not very accurate either. I knew of course about the 1915 massacres in Turkey and had assumed that was also the time when Armenians first arrived in Cyprus. As Susan Paul Pattie shows in her informative book, some Armenians were here long before the massacres, when Cyprus was still an Ottoman province. I had also assumed that Armenian Cypriots speak Armenian as a matter of course—the same way, for example, that Greek Cypriots learn to speak their own version of Greek. The truth of the matter is that the mother tongue of the Armenian refugees who came to Cyprus was Turkish; in fact, some are still comfortable only in that language. If my Armenian Cypriot friends—the younger generation—speak fluent Armenian, it is only because their grandparents and parents had made a concerted effort to learn the language themselves and to pass it on to their children. As for the Armenian community itself, I had always thought of it as a rather tight-knit group—Armenians sticking together in a foreign, if not hostile land. Although this image is not altogether false, it is also the case that the community is deeply divided on ideological and political grounds.

*Faith in History* is the story of Armenian Cypriots living on the island or in London. It is about their struggle to maintain a sense of community and to rebuild their all-too-often disrupted lives—disrupted by the 1915 massacres and deportations, by the outbreak of ethnic violence between Greek and Turkish Cypriots in 1963, and by the Turkish invasion of Cyprus in 1974. On a larger canvas, the book tells the story of the Armenian diaspora, of a people being at "home away from homeland". For the older generations, homeland is the towns and villages in Cilicia, Turkey, that they left behind in 1915. Indeed, the main reason that many chose to come to Cyprus was the island's proximity to Anatolia, thinking that when peace was restored, it would be much easier for them to return. For the younger generations, particularly those rallying behind the nationalist cause, homeland is something far more idealistic, Hayastan, the Republic of Armenia—idealistic because they did not originate from there and because those who actually "returned" and tried to settle in Armenia soon found out that "homeland" was very different from what they had imagined. Hence the fact that many gave up trying to adjust and came back to Cyprus.

On this larger canvas, being at "home away from homeland" means being comfortable in one's adopted country and at the same time haunted by the fear of losing oneself in it. Indeed, this is the major theme that runs through the entire book, and the horns of the dilemma of the Armenian diaspora. For too much comfort in one's host culture suggests that one has been assimilated by it to such an extent as to have no clear sense of one's identity. The question, then, is how to remain Armenian when one is surrounded by an overwhelmingly non-Armenian population. And this in turn raises a related and more controversial question: What does it mean to be Armenian in Cyprus, in London, or in other parts of the world anyway?

As Pattie shows, family has been the backbone of Armenian identity in the diaspora. It is for this reason that intermarriage is perceived by many as the greatest threat that the Armenian nation currently faces and is often referred to, tellingly enough, as a massacre— "the white massacre" (p. 24). This is why the younger generation, being much more comfortable in the wider culture, are strongly discouraged from marrying outside the Armenian community. This fear is not altogether unfounded, insofar at least as the family is seen by most Armenians as the very mechanism by which the two most fundamental characteristics of Armenian identity—language and religion—are inculcated and reproduced.

Pattie takes a rather different view on this sensitive issue. Being the product of a mixed marriage, a Protestant, and someone for whom Armenian is a second language, she is in many ways a living proof that the conventional understanding of Armenian identity may be in need of modification. Already in the preface of the book, Pattie points out that when people in Cyprus praised her (Armenian) mother "for having raised her children to be aware of being Armenian," she found it difficult to explain to them that her mother "had not consciously tried to do this" (p.ix). This sets the tone for the book's main argument, which Pattie develops fully in the last chapter. To be Armenian does not only or even mainly mean to speak the Armenian language or to be a member of the Apostolic Church. Religion in particular has now been co-opted by nationalism and fulfils a largely symbolic function. For Pattie, to be Armenian primarily means to have faith in history, to belong to a group of people who remember and believe in a common past. For it is the past, above anything else, that unifies them in the present and opens up the future.

Pattie has written an informative, sensitive, ethnographically rich, and theoretically sound book. Although I felt that it could have been shorter without compromising any of its strengths—indeed, at times it is repetitive—this is only a quibble. The book certainly deserves to be read widely in Cyprus, and this means by Greek Cypriots as well.

**Vassos Argyrou**