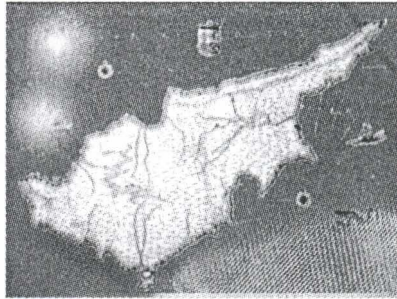


# Cyprus and the European Union

**O**n Monday, March 30th, 1998 twenty - six years of waiting came to an end when the European Union (EU) formally commenced accession negotiations with Cyprus. The island republic has been associated with the EU since December 19th, 1972 when it concluded an Association Agreement with the then European Community. The Association Agreement was entered into force on June 1st, 1973. Although Cyprus had expressed its interest to join the European Community as far back as the early sixties, it was the accession of the United Kingdom in 1972 that made the Association Agreement of Cyprus with the Community inevitable. The U.K was the largest trading partner of Cyprus at the time and one with which Cyprus, as a member of the British Commonwealth, enjoyed privileged economic relations. The 1972 accord provided for the gradual elimination of all trade barriers, included clauses aimed at bringing about technical and industrial cooperation and provided the creation, in two stages, of a customs union between the Community and Cyprus. The first stage of the customs union was scheduled to end in 1977. However political turmoil, that climaxed with the 1974 Turkish invasion and the forced division of the island, postponed but did not freeze, the Association Agreement. The intended transition to the second stage of the Association, which should have ended on June 30th, 1977, was extended until December 31st, 1979.

From mid - summer 1974 to 1979, what has been universally acknowledged as an economic miracle occurred on Cyprus. The 1974 Turkish invasion had left Cyprus economically prostrate. Turkey's American - equipped and NATO - trained army, occupied the northern 37% of Cyprus. This area included 55% of the country's coastline, its flourishing tourist industry, its agricultural heartland, citrus groves and the towns of Morphou, Kyrenia and Famagusta. The latter was the tourist jewel of Cyprus and its largest port. Because of its proximity to the Turkish occupied area, the international airport at Nicosia also became inoperative. Thus for a time Cyprus was cut off from the rest of the world, and the resultant displacement of inhabitants led to a contrived division of the island.

The Cypriots, however, bounced back politically and economically through hard work, sacrifice and a cohesive strategic plan that brought together government, the business and banking communities and the island's trade and labour unions. Ankara's invasion went unrecognized across the world; international courts and forums, including the United Nations and the Security Council, have repeatedly condemned the forceful division and the continuing violation of human and political rights in Cyprus. By 1978, the war - devastated economy had rebounded from an 18% drop in GDP and 30% unemployment, just four years earlier. Although one - third of the population was displaced and barely surviving in 1974, by 1978 the economical devastated refugees were housed in government - built temporary housing. Furthermore by 1978, unemployment dropped to 2%, the GDP attained an average real rate of growth of almost 6% per year and inflation was kept under control.



By 1979 Cyprus was thus able to meet all the transition requirements of the first stage of the Association Agreement. The EC, nonetheless, was unwilling to proceed with the second stage of the accord leading to a customs union. During the eighties, however, two events contributed to a significant shift in the attitude and policies of the Community towards Cyprus. The first was the participation of Greece as full member of the Community in 1981. The second was the further development of European integration and the emergence of the institution

of European Political Cooperation. As the Community became more interested with political issues, it became more involved with the situation in Cyprus. In 1983, for example, the Council of Ministers condemned the secessionist efforts by Turkey and the Turkish Cypriot leadership to set up an independent "state" in the Turkish occupied part of Cyprus. This Turkish act had also been declared "legally invalid" by the Security Council. It received no recognition except from Ankara which had inspired it in the first place.

In subsequent years the Council adopted numerous statements supporting the initiative of the Secretary - General of the United Nations and called for a peaceful and just solution based on United Nations principles. It also considered exports from the occupied part of Cyprus illegal, a position confirmed by the judgment of the European Court of Justice. In 1987 and after ten years delay, a Customs Union Protocol between Cyprus and EC was concluded and entered into force on January 1st, 1988. The Protocol, governing the transition to the second stage of the Agreement, likewise called for the completion of a Custom Union in two phases and set up a new timetable. The first, from 1988 to 1997 and the second from 1998 to 2002, by which time Cyprus would be fully integrated with the European Union.

The increased interest of the Community with Cyprus stemmed from the recognition that its Mediterranean policy, if it were to make political and economic sense, had to address Mediterranean issues including Cyprus. Turkey, the enforcer of the division of Cyprus had, by 1987, tabled its bid to join the Community. While the Commission opined that Turkey was not ready to join the Community, its eventual accession was not rejected. Inevitably however, the Council also linked its relations with Turkey to Cyprus when it declared in April 1988 and subsequently, that the Cyprus problem effected Turkey's relations with the Community. For its part and rather belatedly Cyprus submitted, on July 3rd, 1990 its application to join the Community. On June 30th, 1993 the Commission issued its opinion on the application of Cyprus considering it eligible for membership. The Council adopted this opinion in October 1993. This was a momentous occasion in the quest of Cyprus to join the Community. The Commission did express its reservation, however, as to whether Cyprus would be able to join the Community without having first solved its political problem. And it went on to propose a re - examination of the Cyprus application in January 1995 in light of the progress made for a solution of the problem through the intercommunal negotiations held under the auspices of the Secretary - General of the United Nations. It appeared that the Turkish side were reluctant to accept the suggestions coming out of the

## Cyprus is Europe

March 1998 is already a historic date for Europe and the world. During the last week of the month two milestone decisions took place that are destined to transform Europe's phase in irrevocable ways and to have a positive impact on the rest of the world. Crossing a historic obstacle in the construction of Europe, the European Commission recommended on March 25th that eleven EU members are fit to join a new single currency zone, the Euro - zone, beginning January 1st, 1999. And five days later, in Brussels, the European Union formally opened negotiations whose aim is to bring ten former Communist countries and Cyprus into the Union. President of the EU Council of Ministers, British Foreign Secretary Robin Cook, told the fifteen members and the eleven prospective ones that March 30th marked the day that "we are starting the process of finally putting behind us the division of Europe into East and West which has scared Europe for the last half of the century", while German Foreign Minister, Klaus Kinkel, characterized the enlargement as the process that will spread "peace, democratic stability and prosperity across all of Europe". Ever since its establishment, more than forty years ago, the EU has expanded in stages living up to its philosophy and pledges that it will welcome all democratic European countries.

Cyprus is one such European and democratic country.

"The European vocation and character" of Cyprus were acknowledged by the European Commission in June 1993 and, in subsequent decisions, the European Commission acknowledged the suitability of Cyprus for accession to the EU and took several decisions to that effect. Praising the decision of the European Union on Cyprus and at the same time acknowledging the difficulties that lie ahead, Cypriot Foreign Minister I. Cassoulides declared that "for the people of Cyprus, Greek Cypriot and Turkish Cypriots, this is a historic day" noting that Cyprus is finally meeting its European destiny as it begins the accession process. Minister Cassoulides emphasized that the prospect of Cyprus accession is important for two main reasons. Firstly, because Cyprus is part of Europe because of its democratic polity, and pluralistic society, its political history and culture and because of its vibrant market economy. And secondly, because the accession process and the prospect of accession to the European Union create a dynamic that can act as a catalyst for the solution of the Cyprus problem. "The involved parties", declared the Cypriot Minister, "must act so that the Cyprus problem will be solved before the next EU enlargement. We want a mutually acceptable federal solution. The reunification of our country, which we consider our first and foremost priority, must take place so that a united Cyprus can become a member of the European Union"

Towards this end President G. Clerides has proposed, during the European Conference in Edinburgh, that the Cypriot negotiating team be comprised of a mixed Greek and Turkish Cypriot delegation. The Clerides proposal, characterized as "generous" by EU Commissioner Van den Broek and as "fair and reasonable" by the EU President of the Council of Ministers, Robin Cook, was summarily rejected by Ankara and Turkish Cypriot

leader R. Denktash. Responding to Ankara's arguments, that Cyprus has no right to become member of the European Union, Mr. Cook had this to say :

"On the issue of enlargement of the European Union, our position is quite clear: Cyprus is perfectly entitled to apply for membership to the European Union and the European Union must consider that application on its own merits. It is the view of Britain that these merits are strong and Cyprus has worked hard to bring its laws into line with the European Union acquis and has actually got one of the better developed economies among the applicant countries.

Of course, we would prefer to see a united Cyprus to enter the EU but the government of Nicosia cannot of itself achieve that settlement that requires the participation and cooperation of the Turkish Cypriot community as well. And we very much regret that Mr. Denktash has turned down the offer, I think a fair and reasonable offer by President Clerides, for a mixed delegation to negotiate with the EU that includes representatives of both communities."

For almost a quarter of a century the Cypriot side has been making "fair and reasonable" proposals for a solution that would ensure the right of all Cypriots within a democratic and pluralistic state, one in which individual and communal rights can be safeguarded and political rights exercised. But as the President of the EU Council of Ministers noted "Nicosia cannot of itself achieve [ a Cyprus] settlement." It takes two to tango. This lack of political will for a settlement by the Turkish side has also been publicly acknowledged by the Security Council of the United Nations which, in 1994, had been obliged to state that, inter alia, "the Security Council finds itself faced with an already familiar scenario: the absence of an agreement [ on Cyprus] due essentially to a lack of political will on the Turkish Cypriot side" (Doc. S/1994/629 para.53 May 30 1994.)

A new era is dawning in European history. It is one marked by the unacceptability of the use of force or the threat of use of force in the settlement of disputes, whether internal or external. It is an era marked by the diffusion and devolution of power, the democratization of societies and the empowerment of people. And it is one that acknowledges and safeguards what is unique in every culture whether large or small. This has been the dream of the founders of European unity and of their successors who are methodically, patiently and wisely, turning this dream into a reality.

The overwhelming majority of Cypriots that comprise more than 82% of the total population - the Greek Cypriots, the Maronite Cypriots, the Armenian Cypriots and the Latin Cypriots - want to partake in this emerging European reality. Judging from public statements of prominent Turkish Cypriots and press reports, the overwhelming majority of the Turkish Cypriots also want to participate in this as well. And that is why President Clerides proposal for the Turkish Cypriots to join a mixed delegation to negotiate the accession of Cyprus to the European Union will remain on the table. The choice is with the other side. However, Cyprus should not be kept out of a united Europe. Cyprus is Europe.

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A HUNDRED YEARS AHEAD

negotiations and kept rejecting proposals for a settlement put forth by the Secretary - General for a federal settlement and kept placing pre-conditions, which if accepted nullified the basis of any future federal arrangement. This assessment of the Turkish position began to be reflected in the reports of the Secretary - General to the Security Council as well in the reports of S. Abou, the high ranking Commission official appointed in 1993 as the Community's observer on Cyprus.

The political decision of the Council to enlarge the Community eastward, following the end of the Cold War and the recognized need to maintain a balance between eastward and southward expansion, led to the June 1994 Corfu Council decision that the next enlargement would include Cyprus and Malta. This decision was reconfirmed at the Essen Council meeting in December 1994. In a sense, Corfu and Essen set the stage for the delinking of the accession for a political solution of the Cyprus problem, if the Turkish side persisted in its negative stance. The decision could not have been any different, for otherwise the European Union would have been adopting a policy of condoning the Turkish occupation of Cyprus and allowing a third country, Turkey, to decide Community policy. The final delinking occurred on March 6th, 1995 when the Council decided (a) that accession negotiations with Cyprus would commence, at the latest, six months after the conclusion of the Intergovernmental Conference of 1996 and (b) it adopted concrete proposals for a specific accession strategy including a structural dialogue between the EU and Cyprus. The Council did express regret for the lack of progress for a UN sponsored solution and reiterated its position that the accession of Cyprus will bring increased prosperity and security to all Cypriots. But it was also made clear that Cyprus could not forever be kept outside Europe because a third country so insisted.

Subsequent Council decisions reconfirmed this stance. And at the Florence Council, the Cyprus time - table was used for the commencement of the accession negotiations with Central and Eastern European countries as well. Hence the historic celebrations in Brussels on October 30th, 1998.

No one in Cyprus has any illusions as to the road ahead. It will be a long and winding road. No one also has any doubts that a solution to the political problem will facilitate accession by eliminating reservations from certain individual EU countries and from some influential circles. But the EU has now determined that a political solution is not a condition for accession. And both the EU and the Cyprus delegations are cognizant that in the ensuing negotiations the interests of all Cypriots, political and economic, must be taken into account. But always however in line with the *acquis communautaire* of the Union. Fortunately the economy of Cyprus is small, unlike that of divided Germany for example, and will be able to compensate structurally and otherwise and in relatively short period, should the Turkish Cypriot side decide, to join the Cypriot negotiating team any time during the accession negotiations. In the words of President Clerides, nominated Turkish Cypriot representatives will be "included as full members of the Cyprus team" and their views "will be discussed freely, seriously, and in good faith."

Meanwhile the Cyprus government, the banking and business communities, labour and trade unions and other vested interests, are busy preparing and adjusting to meet the economic challenges. The economy of the island has long been in the process of integrating with the European Union. The import - export trade has been basically liberalized through the gradual implementation of the first phase of the Customs Union Agreement and other international trade regimes. The Common External Tariff has been adopted as of January 1st, 1998. As a result trade volumes with

the EU presently account for about 55% of the country's foreign trade. Most of the negative impact of the implementation of the customs union has been felt by the manufacturing industry and to a smaller degree by agriculture. But all recognize that harmonization with the *acquis communautaire* will result in a more efficient and productive economy.

Current accession strategy calls for the economy to meet all requirements for membership in the single European currency (EMU) during the accession talks period that will last through 2001. Except for the last couple of years, Cyprus has been persistently meeting the Maastricht stipulated macroeconomic convergence criteria for joining the EMU. During 1996 and 1997, however, the fiscal deficit was slightly above the 3% criterion and so was inflation. This was due to a number of reasons including loss of revenue from import duties, higher defense outlays and a slight drop in tourist arrivals. Cyprus's top bankers however are confident that these are manageable problems and they are looking forward to the new vistas that EU membership holds for Cyprus. Already the country's two largest banking concerns, the Bank of Cyprus Group (BOC), with a market share of more than 40%, and the Popular Bank of Cyprus, with a market share of over 30%, have been active in two EU countries with full fledged banking and financial services. Although the original motive for overseas expansion was to serve the large expatriate Cypriot and Greek communities, the strategy now has grown more sophisticated. According to Solon Triantafyllides, Chairman of the Bank of Cyprus Group (BOC), has been implementing a strategy to diversify its shareholders base by internationalizing the BOC share. BOC bonds are currently listed and traded on the Luxembourg Stock Exchange, a listing has

recently been obtained on the London Stock Exchange and steps are underway for a listing on the Athens Stock Exchange. The Bank of Cyprus is already the largest growing tourism bank in Greece and, increasingly, a large chunk of the BOC's operating profits are generated from overseas activity.

Both the BOC group and similarly the Popular Bank Group have been active in Greece and the U.K and both banks have reached out in far away places like Australia, Canada, South Africa and the US. According to Kikis Lazavidis, Chairman and Chief Executive of Popular Bank, his Group's strategy is not merely to have representatives offices overseas but to actively promote Cyprus as a regional financial and shipping center. Supported by the HongKong and Shanghai Banking Corporation (HSBC Holdings), which since 1970 has been the largest share holder of the Popular Bank, the latter is promoting expansion strategies in the Balkans and Easter Europe while pursuing diversifying strategies in offshore shipping financing and mutual fund management.

In fact if there is one single area where Cypriot and EU negotiators will bargain hard this will concern offshore activity and services which have grown dramatically in Cyprus. While certain offshore activity might suffer setbacks, Cypriot negotiators are confident that same advantages will be permitted as in the case of Ireland and Portugal.

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