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## Emperor Has No Clothes: EU's Cyprus Challenge

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In the words of the former UN Secretary General Kofi Annan, “membership of [politically divided] Cyprus in the European Union coupled with Turkey’s membership aspirations has seriously complicated future peace negotiations on the island.” (*Hürriyet*, June 16, 2006). This is a rather harsh assessment of EU’s Cyprus policy given the fact that membership in the Union would most likely create the optimal conditions for peace and stability between the Greek and Turkish Cypriots. Yet, EU membership of one side at the expense of the other community, seem to have created more obstacles for peace. This paper provides a critical analysis of EU’s Cyprus policy. It examines: (1) the contradictions between EU’s desire to establish direct economic and trade link with the Turkish Cypriots and EU’s legal framework, (2) assesses agenda setting process in the EU and its implications for relations with the Turkish Cypriots, and (3) provides ad agent-based analysis of the current impasses surrounding (1).

### ***A Brief Background.***

There is no doubt about the seriousness of Annan’s above statement. In fact, the combined efforts of the international community, led by the US, EU, and UN Secretary General Kofi Annan, to solve the Cyprus problem before eastern enlargement of the EU in May 2004 were aimed at preventing future impasse in Cyprus. That is the reason behind closely formulating the Annan Peace plan around EU’s Accession Treaty and relevant EU laws and regulations.

During the pre-referendum negotiations, the Annan Plan underwent five revisions. The reformist new government in Ankara, led by the Islamist AK Party of Recep Tayyip Erdogan, consolidated its power and withdrew support from the hard line Turkish Cypriot leader Rauf Denktaş. With loss of such support, Denktaş’s followers lost ground in the national elections in the TRNC in December 2003. The new Turkish Cypriot leadership, led by Prime Minister Mehmet Ali Talat, signaled its willingness to support the Annan Plan. These developments, however, coincided with national elections in the Greek part of Cyprus where an ultranationalist former EOKA leader Tasso’s Papadopoulos succeeded reformist and pro-unification president Chlorides. To make matters worse, the progressive government of Semites and Papandreou in Greece lost the national elections and was replaced by center rightist Constantine Karamanlis who did not show any sign of pressuring Papadopoulos to accept the Annan Plan.

With this backdrop, the parties met in New York under the auspices of the Secretary General and agreed to try to work out their differences and present a peace plan for their

respective citizens in separate referendum prior to May 1, 2004 accession date. The parties further agreed that if the two Cypriot leaders failed to reach a compromise, representatives of Greece and Turkey would join them and try to reach a solution. If that effort also failed, the Secretary General would simply “fill-in” the blanks and present the parties a final peace document. The final Plan did not reflect a compromise the leaders jointly endorsed. The Turkish side was more inclined to accept it whereas the Greek side saw it as being unacceptable. Much has been written recently on the Annan Plan and the Cyprus problem recently (for example see Anastasiou 2007, Kaufmann 2007, Lindley 2007, Loizides 2007, Sözen 2007 and Sözen and Özersay 2007).

The merits of the Annan Plan are beyond the scope of this paper. It should suffice to state that key elements of the Annan Plan called for (International Crisis Group, March 8, 2006:3-5):

1. The Annan Plan provided for the establishment of a new federal republic, with a United Cyprus Republic (UCR), with two constituent states – of the Greek Cypriot community in the south and the Turkish Cypriot community in the north. Constitutionally, the plan allocated most powers to the two constituent states, with the federal level of government responsible principally for foreign relations, monetary policy, federal finance, Republic citizenship and immigration.
2. The executive was to be constituted by a presidential council comprising nine members (of which at least three would be Turkish Cypriots) holding office for five years.
3. The presidency of the council would rotate between the two communities.
4. The federal parliament would be composed of two houses, and decisions would normally require the approval of both chambers by simple majority, including one quarter of the senators from each constituent state. The lower house would be elected based on constituent state citizenship, provided that the Turkish Cypriot state held at least one quarter of the seats. The upper house would be composed of an equal number of Greek Cypriots and Turkish Cypriots. Constituent state elections would be based on permanent residency.
5. The Supreme Court would have an equal number of Greek Cypriots, Turkish Cypriots, and foreign members – 3 members each.
6. The Turkish Cypriot territory would comprise 29% of the island (as opposed to 36% at present).
7. A total number of 120,000 Greek Cypriots would be able to return to live in their old houses in the North of the island. In order to avoid a flood of Greek Cypriots, feared by the Turkish community, their proportion would be limited to 18% of the population in the Turkish Cypriot zone.
8. All Cypriot security forces were to be disbanded, and the mainland Greek and Turkish contingents would have been reduced to 6,000 apiece by 2011 and 3,000 by 2018 (or by the date of Turkey’s EU accession). Thereafter, numbers would be scaled down to the original 950 and 650 troops respectively foreseen in the Treaty of Alliance, with the objective of complete demilitarization. A UN peacekeeping force, empowered by a new mandate, would monitor implementation of the agreement.

Unfortunately, the Annan Peace plan did not materialize. In separate referendums, the Cypriots failed to agree on the peace plan – over three-quarters of Greek Cypriots voted “no” while two-thirds of Turkish Cypriots voted “yes.” With these results, Greek Cypriots joined the EU on May 1, 2004 while the Turkish Cypriots found themselves in political limbo awaiting when and how the international community would reward their goodwill effort.

Kofi Annan called upon the international community to eliminate economic restrictions and barriers on the Turkish Cypriots and this was echoed by former U.S. Secretary of State Colin Powell and EU Commissioner Verheugen, British Prime Minister Tony Blair, and the EU Council of Ministers (prior to enlargement) (International Crisis Group, 2006:12). Several reasons stood behind this call. First, the international community felt obligated to compensate the Turkish Cypriots, who despite their positive vote, would be excluded from the benefits of EU accession. Second, as noted by the International Crisis Group (*ibid*) “since the Turkish Cypriot unilateral declaration of independence in 1983, the international community has adhered to UN Security Council Resolutions 541 (1983) and 550 (1984), which called upon states not to assist the secession of northern Cyprus. Normalising the economic situation in the north was viewed as a form of assistance to secession.” As far as Kofi Annan was concerned, the Turkish Cypriots’ vote for reunification invalidated the political logic of isolation. And third, lifting the isolation was viewed as a catalyst for reunification as it would initiate economic development of the north and bridge the gap between the two sides.

In the UN Security Council, Annan’s Cyprus report met Russian opposition and never reached full hearing. In the EU, the situation was even more precarious. Prior to the referendum, EU officials promised to reward the Turkish Cypriots if they voted in favor of the Annan Plan. Following the Greek Cypriots rejection, Enlargement Commissioner Gunter Verhuegen went even further and presented a scathing criticism of President Papadopoulos for hijacking the EU process and for wanting to use the EU membership to pressure the Turkish side to cave in to Greek Cypriot wishes. Similar statement followed from the president of the European Parliament. In an attempt to reward the Turkish side for its endorsement of the Annan Plan, Brussels Commission prepared a policy package that would have established direct trade between north Cyprus and EU markets and provided for 249 million euros in direct aid. Verhuegen argued that “I am making a serious call on our member states to make a decision to stick to their promises [to the Turkish Cypriots],” adding that the European Commission had done, and was willing to do, everything it could to back the Turkish Cypriots (Bahceli, September 14, 2004). Despite such good will, the efforts of the Commission failed in both tasks as the Council of Ministers ruled that the plans violated existing EU regulations since North Cyprus (“TRNC”) could not be viewed as separate legal territory from member state Cyprus. Therefore, all EU linkages to the Turkish side of the island would have to go through the official government of Cyprus – which the Turkish Cypriots reject. Given the enormity of this outcome, what legal obstacles stand in the way of EU in establishing direct ties with Turkish Cypriots?

## ***Problems with EU's Cyprus Policy and Institutional Challenges***

Despite its good intentions aimed at rewarding Turkish Cypriots, the EU met legal and administrative obstacles in its efforts. The initial plan of Verhuegen was to find a formula for providing direct economic aid and establishing direct trade with the North. The proposed plan would have permitted tariff free trade between the EU and North Cyprus (for good wholly or substantially produced in the north). In order to accomplish this goal, the Commission argued that the existing problem of "origin certificates," which the Greek Cypriots successfully argued in the ECJ decision of 1994, could be overcome by recognizing certificates issued by the Turkish Cypriot Chamber of Commerce since this institution was established under the 1960 arrangement that created the Republic of Cyprus. The Commission based its argument behind Article 133 of the EU Treaty that regulates trade with third parties (territories) and is used to regulate trade with territories that are part of an EU member state but are not included in its customs territory, such as Ceuta and Melilla (Ibid). They had hoped to argue that, in lieu of referendum results and the Council's call for ending economic isolation of Turkish Cypriots, north Cyprus presented such a territory.

However, the Greek Cypriots argued that the regulation fell under Protocol 10 of the Accession Treaty (which addressed the particulars of the Cyprus problem and its linkage to accession). As the Protocol stipulates, partial lifting of the suspension of the *acquis* to the north requires unanimity in the Council. The legal office of the Council supported this interpretation. The outcome of these interpretations has been devastating to original intent of the Commission. Gradually, those members of the EU that wanted to see through Commission's goal one by one withdrew their efforts and accepted the legal impasse. The Luxembourg, UK, and German presidencies pushed very hard to break Cyprus's opposition to the plan. In each case, they met Greek Cypriot veto and decided to separate economic aid package from direct trade/air link with the north. The Greek Cypriots even won a cheap victory in the aid package by demanding, "the passage of the aid regulation be tied to a more restrictive interpretation by the Commission of the trade regulation's likely remit. When a draft of the Commission's proposed explanatory text reached the Turkish Cypriots, they declared it unacceptable, and the process again collapsed, this time with the loss of €120m of the €259m package thanks to the ending of the 2005 financial year. The aid regulation was eventually passed on 27 February 2006, with no explanatory declaration attached." (Ibid: 13). With success in this area, the Greek Cypriots moved diligently to block many other attempts of Turkish Cypriots with EU institutions that included exclusion of universities of north Cyprus from participating in the Erasmus program (Turkish Cypriot dailies).

In a similar fashion, air link between north Cyprus and the rest of the world (except Turkey) cannot be established as long as international conventions and the UN view Greek Cypriot government as the legitimate representative of Cyprus. Short of the UN Security Council's future resolution that would lift economic isolation of the north, direct air flights to airports in TRNC cannot be established. Thus, EU countries have been gun shy in taking steps to establish such air link with the north.

The above situation creates a major embarrassment for the EU as it finds itself in a quandary. On the one hand, it wants to fulfil its promise to Turkish Cypriots. On the other hand, it finds its hands tied by legal issues and Greek Cypriot (and probably Greece) veto. In the meantime, the EU principles of fairness and justice remain unfulfilled as far as Turkish Cypriots and their supporters in the EU are concerned.

The main institutional challenge for resolving this dilemma concerns agenda setting in the EU. As long as the Commission and the Council address the Cyprus policies within EU's legal framework, the issue can only be addressed as part of ordinary agenda and face all the problems explained above. That would suit the interests of Greek Cypriot leaders who wish to transform the Cyprus problem into an intra-EU issue that can be resolved through EU's legal framework. Unfortunately, to them, Cyprus is still a political problem where UN Secretary General continues to oversee international mediation efforts. North Cyprus is technically in the EU but the *acquis* remains suspended until a political solution is found to island's division. This is because the EU admitted the whole of Cyprus into the Union as stated in Cyprus's application for membership and the subsequent Accession Treaty. However, the problem Cyprus is not only a legal problem. Fundamentally, it is a political problem which none of the existing legal framework of the EU could address. It should be handled as an extra ordinary agenda item by the EU at the level of the European Council (heads of states and governments). It is at this institution where political will of all parties concerned can addressed and dealt with at the highest level of political authority. The European Council itself sets its own extraordinary agenda by creating special intergovernmental bodies to examine issues and report back its recommendations, like the intergovernmental conference that the December 2001 Laeken summit scheduled for 2004, which produced the Constitutional Treaty (Wood and Yesilada 2007: Ch 6).

Some might argue that such a move would be futile given veto powers of member states like Cyprus and Greece at the summit meeting of the European Council. There is validity behind this position and this is why finding a solution should not be an EU only effort. It has to include all relevant parties including the UN, the US, and Turkey (who holds out on extending its Customs Union agreement to Cyprus unless the EU delivers its promise to Turkish Cypriots). In order to examine the likelihood of resolving this problem, I next carried out an agent-based analysis of the bargaining space on EU trade with north Cyprus.

### ***Agent-based Analysis of the Cyprus Bargaining Space***

The agent-based model examines one issue among many that surround the Cyprus problem. For the purposes of this paper, I only consider economic isolation of north Cyprus and various positions stake holders prefer. Stakeholders and their positions can be found in Appendix I. The program utilized is developed by Jacek Kugler and his associates at the Sentia Corporation.

The algorithms that are combined in the software include game theory, decision theory (bounded rationality), risk, and special bargaining. The methodology provides an

explanation of how policy positions of competing interests evolve over time. It leads to predictions about policy outcomes and identifies strategic opportunities for altering them.

The model is a substantial improvement over the earlier Expected Utility model. It is based in part on Black's (1958) median voter theorem and Banks' (1990) theorem about the monotonicity between expectations and the escalation of political disputes. The model predicts behavior as a consequence of rational desired outcomes of the parties and their strategic interactions, not as an extension of past behavior. This approach simulates the shifts in position of individual stakeholders over time in response to the pressure that occurs during bargaining. The model is driven by a game in which actors simultaneously make proposals and exert influence on one another. They then evaluate options and build coalitions by shifting positions on the issue in question.

The logical flow of the model assesses how decision makers evaluate whether or not they will challenge policy if their expected value for action is positive or negative. A stakeholder's probability of success depends upon its ability to influence, as well as its anticipated chance of success at convincing others to support the position advocated. The utility for success is the policy gain the stakeholder receives by acting and changing the policy outcome more in line with their desired position. The probability of failure is related to the constellation of opposing stakeholders, while the utility of failure is based on the policy consequences from a failed policy challenge.

Using this process, the model provides a complete mapping of the relationships and perceptions of each stakeholder *vis-à-vis* every other stakeholder. The policy proposals and the subsequent responses begin to give insights into the process, anticipating policy dynamics and outcomes. In some cases, there are individual stakeholders who can apply a veto to any settlement, despite forecasted agreement by other parties. This is not the case in this analysis. The model thus provides a forecast of the likely settlement of policy issues as a function of competition, confrontation, cooperation, and negotiation. Data for the issues analyzed with this approach come from experts on the particular topic addressed.

The model depends entirely on the policy acumen of experts. In this sense, it is a marriage of the old and the new. It takes four key types of information from experts: who are the stakeholders that can influence the policy outcome, what policy position do they currently advocate, what is their relative potential influence over the process, and finally how important is the issue to the policymaker. The approach uses only these data and then provides specific advice that helps policy analysts understand which policy options are likely to be successful, the sequence and timing of interventions, the nature of interactions among stakeholders, and the types of coalitions that will form. Feder (1995) provides a systematic assessment of the performance of expert-generated data with the Expected Utility model using a large number of cases. He finds that while experts may disagree with the predictions of the model, their data tend to vary only slightly and do not produce appreciable differences in the model forecasts. This congruence suggests that the results of the model are robust.

Note that without a guideline for the long-term interests of a nation, many actions can initially be seen as optimal that produce detrimental results over time. Differentiating between successful and unsuccessful approaches is often only possible with the benefit of hindsight. Our methodology allows policymakers and policy analysts to anticipate likely consequences ahead of time.

This approach has a well-documented track record of success, including an internal assessment of over two thousand issues by the Central Intelligence Agency, which found the approach to be accurate in excess of 90% of the time (study available upon request). The model is concerned with explaining how policy positions of competing interests evolve over time. It leads to predictions about policy outcomes and identifies strategic opportunities for altering them. I refer the reader to Bueno de Mesquita and Stokman (1994); Kugler and Feng (1997); and Bueno de Mesquita (2002) for details on the mathematics behind this approach, and provide only a brief summary here.

### Analysis

Policy preferences of stakeholders include a range of options where;

0=status quo

25=trade through GOC ports

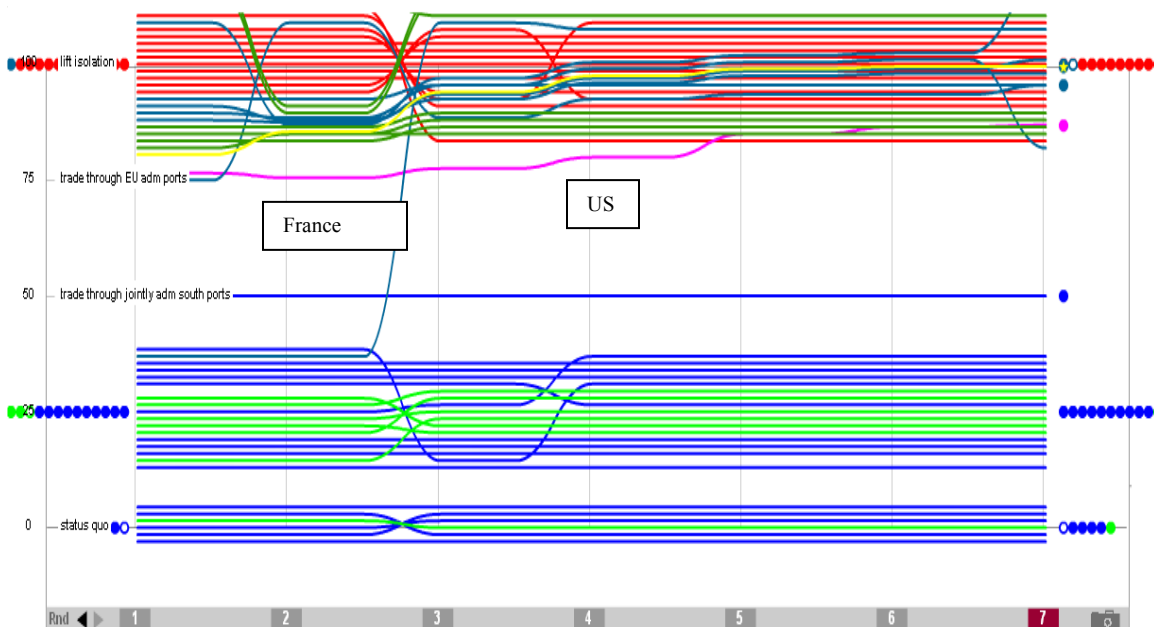
50= trade through jointly administered ports in the South

75=trade through EU administered port

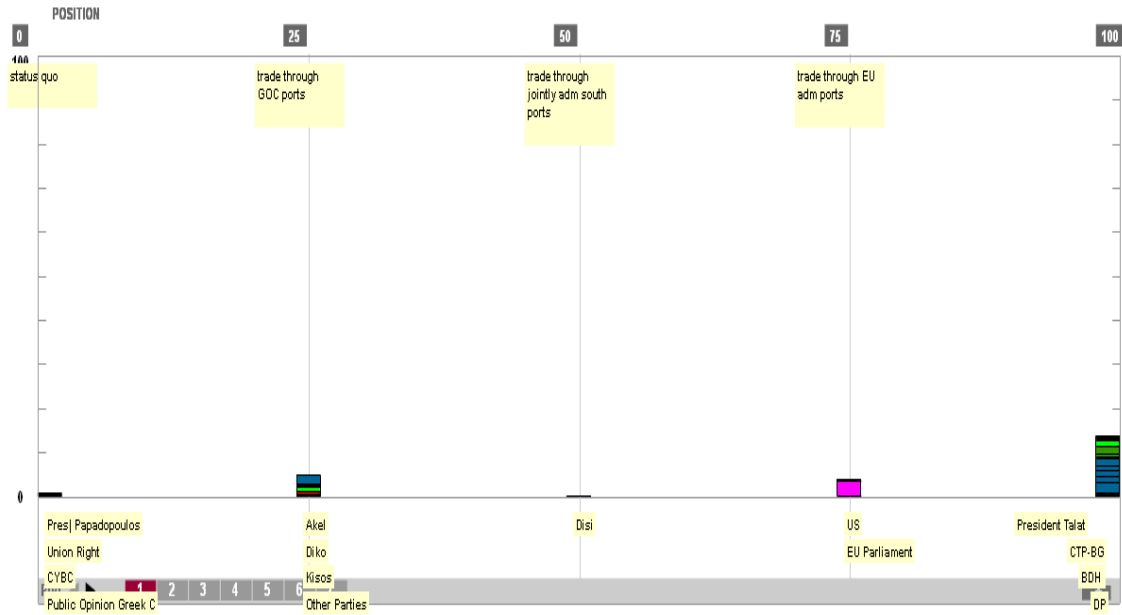
100=lift isolation

All players' preferences, salience of their respective positions, and their respective resource base are based on continuous assessment of the Cyprus theatre and is part of a larger project that brings together academics from Cyprus and the United States. Figure 1 shows position of all players during seven rounds of negotiations.

**Figure 1: Stakeholders positions over time**



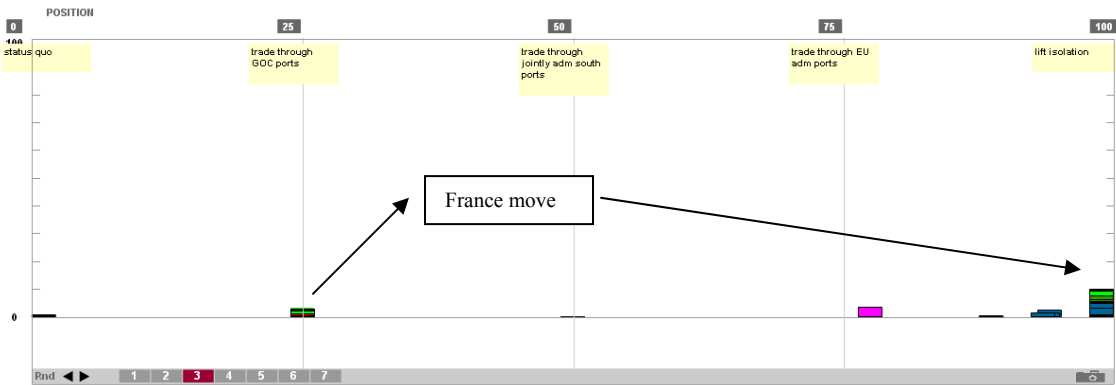


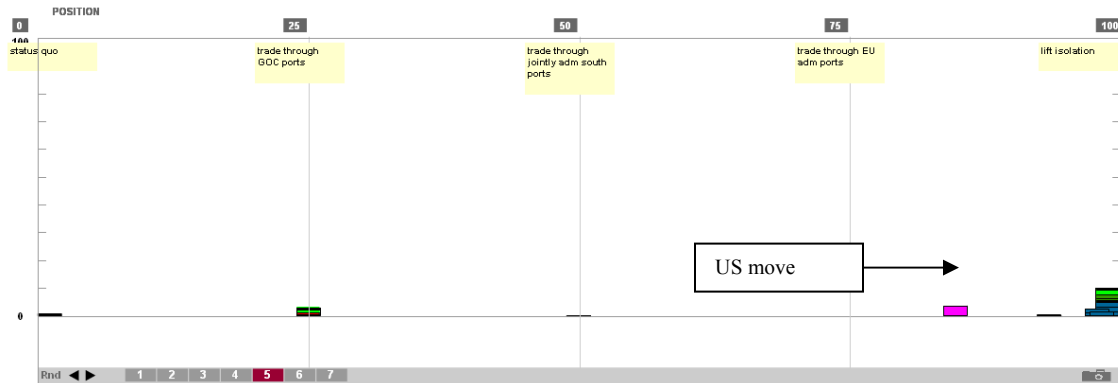


For identification of key actors

As negotiations continue, France is likely to move toward lifting of economic isolation of North Cyprus coupled with US efforts aimed at the same end (see Figure 2).

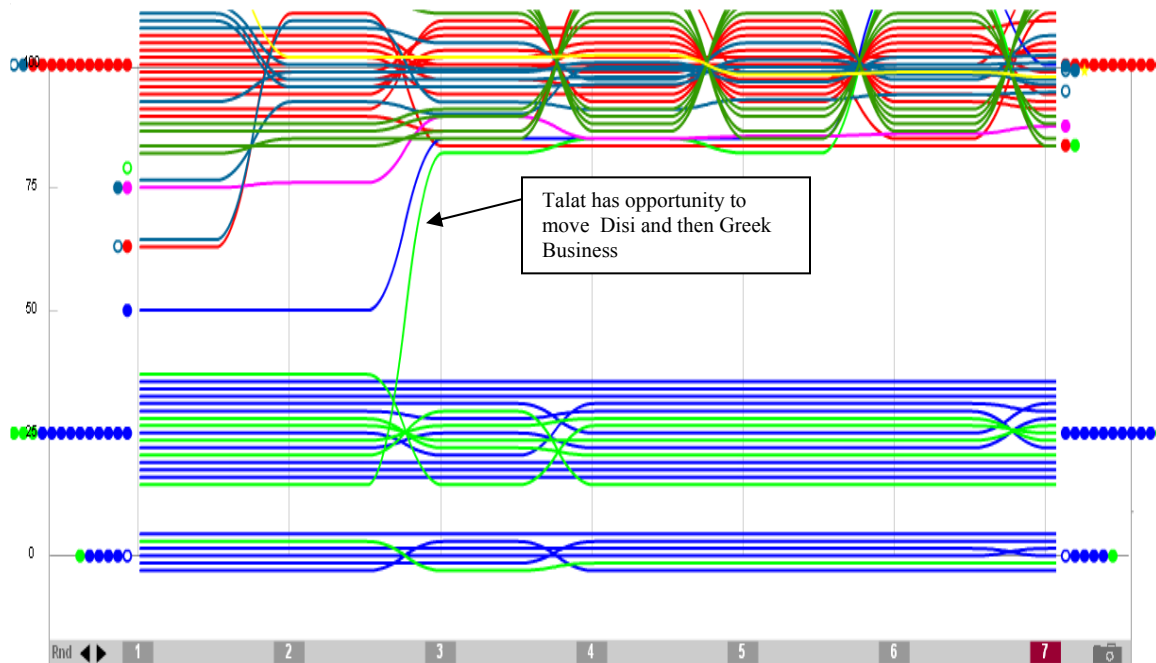
**Figure 2: France (round 3) and US (round 5) Move**





At the third round, France’s move precipitates other moves including US resulting in large concentration of capabilities favoring lift of isolation with minimal EU involvement (suggesting UN-level resolution). Only Greece and Greek Cypriots oppose this liberalization but the outcome presents President Talat of TRNC an opportunity to move DISI and Greek businesses to push for lifting of economic isolation (Figure 3).

**Figure 3: Opportunity for Turkish Cypriots to move Greek Cypriots players**



## ***Conclusions and Prospects***

The analysis in the paper demonstrates futility of EU's efforts aimed at ending economic isolation of north Cyprus and the Union's precarious new citizens – the Turkish Cypriots. While they received repeated assurances from the EU, the UN, and the US that they would be rewarded for voting for the Annan Plan, Turkish Cypriots face continued isolation from the rest of the world as political leaders of the EU quibble over when, how, and under what circumstances they could ease these “new EU citizens” continued punishment. The presence of Greek Cypriots in the EU, despite their rejection of the Annan Plan, coupled with their veto of Commission's efforts to establish direct trade with the north simply adds insult to injury for the Turkish Cypriots. It is no wonder that Turkish Cypriots have become cynical of future EU efforts to reach out to north Cyprus and support for the Union has declined substantially since April 2004 as shown in recent Eurobarometer surveys. Under these circumstances, the EU needs to take the bull by its horns and address the problem in a combined EU-US-UN strategy. As the analysis of the bargaining space demonstrates, there is an opportunity for France and the US to lead the way in forging a solution by showing political leadership. France under President Sarkozy can take the lead, supported by the UK and Germany, to emphasize the basic ideals of the Union – compromise, fairness, and justice. The US, for its part, can use this move to push the UN Security Council to implement recommendations of former Secretary General Annan. With these developments, an opportunity will arise in Cyprus for Turkish Cypriot president Talat to forge an alliance with Greek Cypriot DISI and business leaders for ending economic isolation of north Cyprus. Such an outcome would undoubtedly go far in bringing the two sides closer to finding a just and lasting solution to the Cyprus problem.

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**APPENDIX I**



- 0=status quo
- 25=trade through GOC ports
- 50= trade through jointly administered ports in the South
- 75=trade through EU administered port
- 100=lift isolation

Actor	Weight	Power	Position	Salience	
<b>Cypriot Turks</b>	<b>10</b>				<b>veto power</b>
President Talat		70	100	90	
CTP-BG		60	100	90	
BDH		5	100	90	
DP		25	100	90	
UBP		35	100	90	
Business Turks		15	100	90	
Unions - Teachers		15	100	90	
Media Pro		20	100	90	
Media Anti		5	100	90	
Peace Activist		5	100	90	
UHH		5	100	90	
Public Opinion		30	100	90	
<b>Greek Cypriots</b>	<b>15</b>				
Pres. Papadopoulos		100	0	90	
Disi		40	50	70	
Akel		60	25	70	
Diko		30	25	85	
Kisos		15	25	85	
Other Parties		5	25	80	
Business Greeks		15	25	70	
Union Left		10	25	70	
Union Right		5	0	70	
CYBC		15	0	70	
ANTENA		5	25	77	
ERT		10	25	70	
MEGA		5	25	77	
SIGMA		10	25	80	
Public Opinion		20	0	75	
Church		25	0	90	
<b>Greece</b>	<b>45</b>				<b>yes</b>
PM/Karamanlis		70	25	70	
PASOK		60	25	75	
ERT		15	25	70	
MEGA		10	25	70	

ANTENA		10	25	70	
Church		20	0	85	
Business		30	25	50	
Public Opinion		30	25	70	
<b>Foreign Actors</b>	<b>400</b>				
US		300	75	10	
EU commission		10	100	80	
Germany		20	100	20	<b>yes</b>
UK		20	100	25	<b>yes</b>
France		20	25	30	<b>yes</b>
other EU		20	100	20	<b>yes</b>
EU Parliament		5	75	25	
UN		25	100	20	
<b>Turkey</b>	<b>70</b>				
Public Opinion		20	100	70	
Opposition Parties		15	100	80	
President		25	100	90	
Military		80	100	90	
Prime Minister/AKP		75	100	85	
Media Pro		25	100	70	
Media Anti		10	100	90	
Business Pro		20	100	70	
Business Islamic		5	100	90	