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Cyprus

The island of Cyprus is located in the Eastern Mediterranean, 65 miles off the southern coast of Turkey. After gaining independence from Great Britain in 1960, Cyprus's success as a politically stable, united republic began to unravel in 1963 as relations between the Greek Cypriot majority and the Turkish Cypriots deteriorated. In 1964, the Turkish Cypriots, objecting to revisions made to the constitution by the majority, withdrew from most national institutions and began to administer their own affairs. Sporadic, and sometimes intense, intercommunal violence prompted the United Nations Security Council to order a U.N. peacekeeping force to the island. In 1974, a coup against the Greek Cypriot government, intended to unify Cyprus with Greece, led to the deployment of Turkish military forces to northern Cyprus. Since then, the island has been politically and physically divided; the internationally recognized Republic of Cyprus governs about two-thirds of the island, and the Turkish Cypriots administer an area in the northern third of the island. In 1983, the Turkish Cypriots declared their independence and established the Turkish Republic of Northern Cyprus (TRNC). The TRNC is recognized only by Turkey.

Cyprus: Basic Facts

Area: Approximately the size of Connecticut.

Political Division: Republic of Cyprus controls the southern two-thirds of the island. Turkish Cypriots administer the northern one-third of the island.

Population: Approximately 1.2 million; some 860,000 Greek Cypriots and some 286,000 ethnic Turkish Cypriots and mainland Turks. Maronites and Armenians represent very small minorities.

Capital: Nicosia (for both the Republic of Cyprus and Turkish Cypriots).

Languages: Greek and English in the republic and small communities in the north; Turkish and English in the north.

Religion: Greek Orthodox in the south and small communities in the north; secular Islam in the north.

Gross Domestic Product (GDP): In the republic, GDP is \$21.7 billion; per capita GDP is \$30,000; In north Cyprus, GDP is \$3.8 billion (approx.); per capita GDP is \$13,800 (approx.).

Political Leaders: Republic of Cyprus: President Nicos Anastasiades; Foreign Minister Ioannis Kasoulides; Energy Minister Giorgos Lakkotrypīs.

Leaders of Turkish Cypriots: "President" Mustafa Akinci; "Prime Minister" Tufan Erhurman; "Foreign Minister" Kudret Ozersay.

Sources: Economist Intelligence Unit; IMF.

The U.N. monitors a buffer zone (Green Line) across the island between the two sides. Over the past 44 years, the U.N. has facilitated reunification negotiations between the two Cypriot communities. (For more on the unification negotiations, see CRS Report R41136, *Cyprus: Reunification Proving Elusive*.)

The Republic of Cyprus entered the European Union (EU) on May 1, 2004. Although the entire island of Cyprus is considered part of the EU, only Greek Cypriots enjoy the full benefits of EU membership. The EU's *acquis communautaire*, the union's rules and procedures, has been suspended in the area administered by Turkish Cypriots pending a political settlement. Turkish Cypriots may enter the south and apply for EU citizenship and passports. The Republic of Cyprus adopted the euro as its currency in January 2008; the Turkish lira is the official currency of the Turkish Cypriot area, although the euro is accepted.

Political Situation

The Republic of Cyprus is governed by a president and a 56-seat unicameral House of Representatives, both elected for five-year terms. Nicos Anastasiades of the Democratic Rally (DISY) Party was elected president of the republic in February 2013 and reelected in February 2018. After the 2016 parliamentary elections, eight political parties sit in the House, with the DISY party as the largest.

In the north, the Turkish Cypriots administer their own institutions with an elected "president," "prime minister," and "National Assembly," which exercise joint executive powers. Mustafa Akinci was elected president for a five-year term in April 2015. Parliamentary elections were held in January 2018. Although the conservative National Unity Party (UBP), which led the previous coalition government in the north, won the most seats, a coalition government led by the Republican Turkish Party was formed without UBP participation. The Greek Cypriots do not recognize the TRNC or the elections in the north. They do not refer to Mr. Akinci as president, and they refer to the north as the "occupied area." Similarly, the Turkish Cypriots do not recognize the Republic of Cyprus and refer to it as "south Cyprus."

The Republic of Cyprus's international relations generally follow that of the EU, although it historically has been tied closely to Greece and its policies. The republic maintains close relations with Russia, a major source of tourism and offshore banking, and more recently with Israel and Egypt, by virtue of a mutual interest in energy exploration and development in the Eastern Mediterranean. The republic has supported EU sanctions on Russia in reaction to the Ukraine crisis. Relations with Turkey, Cyprus's largest regional neighbor, have been tense. Turkey does not

recognize the Republic of Cyprus, has opposed the republic's energy exploration, and has been a decisive player in the island's reunification negotiations.

Turkish Cypriot foreign policy generally mirrors that of Turkey, although the Turkish Cypriots have long sought increased diplomatic and trade relations with other countries. An estimated 25,000 Turkish military forces are stationed in the north, providing security for the Turkish Cypriots.

Economic Conditions

The Republic of Cyprus has an open, free-market economy. The services sector, including a large tourist industry, contributes approximately 75% to the GDP and employs about 72% of the labor force.

The Greek Cypriot economy traditionally has been linked to the Greek economy. Between 2009 and 2013, when the global economic and Eurozone crises hit Greece, resulting in a major economic and financial crisis, the Cypriot economy also declined. In 2011, Cypriot banks ran into liquidity problems as the number of nonperforming loans in both Cyprus and Greece began to increase. In 2012, representatives of the European Commission, European Central Bank, and International Monetary Fund (IMF) began work on an assistance program for the Republic of Cyprus that included implementing austerity and reform initiatives. The rescue program included a loan of €10 billion to cover maturing debt held by foreign institutions and the recapitalization and merger of weakened banks. Cyprus emerged from its financial crisis and the EU/IMF-backed bailout program in March 2016. According to Eurostat, real GDP grew by about 3.6% in 2017. The Economist Intelligence Unit indicates that the economy could grow by 3.7% in 2018 and continue on a healthy pace through 2021.

The economy of the Turkish Cypriot-administered area is dominated by the services sector, including tourism, and education, with smaller trade, agriculture, and light manufacturing sectors. The economy operates on a free-market basis but remains highly dependent on financial assistance from Turkey, including low-interest loans mostly to Turkish entrepreneurs in support of export-oriented industrial production and tourism. Economic growth (2.6% in 2016) continues to be handicapped by the political isolation of Turkish Cypriots, the lack of private and public investments, high freight costs, and skilled-labor shortages. In 2016, exports amounted to \$105 million whereas imports totaled around \$1.5 billion. Turkey remains the Turkish Cypriots' main trading partner, supplying 60% of imports and absorbing around 40% of exports. A pipeline transporting fresh water from mainland Turkey to north Cyprus opened in late 2015. An electrical cable from Turkey to north Cyprus is in the planning process.

Direct preferential trade between north Cyprus and EU member states is restricted. However, since August 2004, EU rules have allowed goods produced or substantially transformed in the area administered by Turkish Cypriots to be sold duty-free to consumers in the Republic of Cyprus

and, through the republic, to the rest of the EU. Under these rules, the EU has become the Turkish Cypriots' second-largest trading partner.

Energy

The Republic of Cyprus claims an exclusive economic zone (EEZ) that includes a 200-mile stretch of the Eastern Mediterranean that extends southward toward Israel, Egypt, and Lebanon. In December 2011, Noble Energy, a Texas-based energy company, announced the discovery of natural gas in Cyprus's Aphrodite gas field. It was felt at the time that the discovery would place Cyprus on Europe's energy map. Subsequent rounds of drilling, by France's TOTAL, Italy's ENI, and an Italian/South Korean consortium (ENI/KOGAS) have failed to locate any significant additional gas. Exxon-Mobile will begin gas exploration in fall 2018. Cyprus, Israel, Greece, and Italy also have moved forward on a potential gas pipeline to Europe. In addition, Cyprus and Egypt have signed agreements to pipe future Cypriot/Israeli gas to Egypt's liquefied natural gas facilities for possible future export to outside markets. A more economic, technically practical gas pipeline across Cyprus to Turkey and into Europe would depend on an overall solution to the island's division.

Turkey and the Turkish Cypriots have objected to the drilling and threatened to take action if it continues. In September 2011, Ankara and the Turkish Cypriots signed an agreement authorizing the Turkish Petroleum Corporation to explore for energy resources in areas off the coast of Cyprus that Turkey claims as part of its EEZ. Turkish naval vessels have entered the Republic of Cyprus's EEZ on several occasions to conduct operations and to harass other gas-exploration operations, raising tensions between Ankara and Nicosia and negatively impacting the settlement negotiations.

U.S.-Cyprus Relations

U.S. relations with the Republic of Cyprus generally have been considered good. Relations with the Turkish Cypriots are considered unofficial but cordial. The United States regards the status quo on Cyprus as unacceptable and has supported negotiations to achieve a fair and permanent settlement. Although offshore banking operations have periodically raised concerns about money laundering, the United States and Cyprus signed a mutual legal assistance treaty in September 2002, which facilitates bilateral cooperation. The United States also has expressed its satisfaction with the republic's policies toward the prevention of human trafficking.

The United States has taken the position that the Republic of Cyprus has the right to explore for natural resources within its EEZ but that any revenues that may result from the discovery of natural gas should benefit both the Greek and the Turkish Cypriot communities. The United States hopes that tensions between Cyprus and Ankara over the energy issue do not pose significant problems in the regional attempt to establish the Eastern Mediterranean as a new energy area.

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