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A New Business and Political Model for Cyprus

By Javier Solana

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Amid the Cyprus banking crisis, Europe has peered once again into the abyss. But looking ahead, Cyprus has the means not only to recover but even to heal its longstanding division with the Turkish-backed statelet in the north of the island.

Cyprus, of course, is just the latest country to be hit by the economic crisis surging through the Mediterranean. For years, Cyprus had an immense banking bubble. As foreign money poured into a tax haven within the euro zone's secure environment, the banking sector's assets were roughly seven times the country's gross domestic product.

The design of the bailout has been shaped both by domestic pressures faced by eurozone leaders and by the exceptional nature of the Cypriot banking bubble: Many European leaders suspect that the island had become a money-laundering center for Russian individuals and entities, which pumped an estimated 68 billion euros ($87 billion) into the country's banks. Regardless of the details of the ultimate deal, the risk is that the ghost of Russia's bailout of Cyprus in 2011 could provoke severe side effects across southern Europe, both for governments' borrowing costs and for small savers.

Nevertheless, it is imperative not to lose sight of some very valuable assets that Cyprus holds, assets that could mean the country's economic salvation.

In 2011, the U.S. energy company Noble discovered some 200 billion cubic meters of gas in the eastern Mediterranean. The value of this block, known as the Aphrodite gas field, has been estimated at some 80 billion euros ($103 billion). Work has already begun on extraction, with production expected to commence in 2018. Experts say that the reserves could provide some 100 years of energy for Cyprus and an alternative supply source for energy-hungry Europe. In fact, in the search for an acceptable bailout package, the future revenues from these assets were at one point considered as possible guarantees.

The U.S. Geological Survey has estimated that the Levant Basin, which extends across the Israeli, Cypriot and Lebanese seabed, contains some 3.45 trillion cubic meters of recoverable natural gas and 1.7 billion barrels of oil. Given their geographic location, however, these incredible reserves can be uncapped, extracted and exported only on the basis of interstate cooperation.

As with all marine gas and oil deposits, the rights to the waters and the riches below are critical. Given such riches, competition might appear lucrative at first sight, but cooperation stands to enlarge the pie.

Moreover, economic agreements may promote closer cooperation in other realms. Energy matters have already led to an unprecedented warming in relations between countries such as Israel and Cyprus in recent years, with an agreement signed in 2010 formally delimiting these states' respective exclusive economic zones. It is not unimaginable that this type of cooperation could be extended to include other neighbors around the Levant.

The good news is that Cyprus's newly elected president, Nicos Anastasiades, may be open to such an agenda. Naturally, much will depend on how he fares politically in the current turmoil surrounding the bailout package. Anastasiades, a member of the pro-European Democratic Rally party, won 57 percent of the popular vote on a platform that emphasized economic recovery, and this will naturally be his top priority. Nevertheless, a cautious look beyond the current turbulence, and into Anastasiades's history, provides grounds for optimism.

In 2004, Anastasiades and his party supported the Annan Plan, developed by former United Nations Secretary-General Kofi Annan and supported by the European Union. Annan's reunification proposal provided the blueprint for a "United Republic of Cyprus" comprising a federation of two states.

When put to a referendum, roughly two-thirds of the island's 250,000 Turkish Cypriots in the north supported the Annan Plan, but 76 percent of the 860,000 Greek Cypriots in the south rejected it. It is not inconceivable, however, that Anastasiades's victory could provide impetus for reopening the dialogue between the island's north and south — that is, once the current crisis has passed.

Such an outcome would be a major breakthrough for Cyprus and the region. Resolving the island's longstanding division would nest Cyprus more comfortably in the EU, and the economic effects would be manifold, extending throughout the eastern Mediterranean.

For example, both Turkey and Greece could reduce their military spending, although naturally to varying degrees, given their respective geopolitical environments. Greece is the second-largest defense spender, relative to GDP, in the EU. Clearly in today's economic climate, savings here could provide hugely welcomed budget relief. And the Kurdish rebel leader Abdullah Ocalan's recent call for a ceasefire is an encouraging sign that Turkey, too, stands to benefit from a peace dividend.

Greek Prime Minister Antonis Samaras's visit to Istanbul earlier this month was a heartening sign that tensions between Greece and Turkey are already beginning to ease. A deepening of cooperation in the eastern Mediterranean would provide myriad economic opportunities, not least the many related to developing the region's cross-border maritime gas reserves.

Anastasiades has endured a perfect economic storm during his first month in office, and the current crisis is certain to continue to dominate his agenda. But beyond today's tempest, there is light on the horizon. Cyprus, and its neighbors, must now pull together to reach it.

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